India Independent

Charles Bettelheim

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India Independent

Charles Bettelheim

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Charles Bettelheim is Director of Studies at the School for Higher Studies in Social and Economic Science, the Sorbonne.

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CHARLES BETTELHEIM

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W. A. CASWELL

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owing to the way they are exploited, with the result that many of the suffer from various illnesses related to malnutrition. This affects th capacity to work, and lowers the output of all the poorest peasants. large section of the working force available for agricultural work weakened by malnutrition and ill-health.

2. *Weak Productive Accumulation*

Agricultural production is also affected by defective means of produ tion: soil-exhaustion through lack of fertilization, weakened draugh cattle which can only do light work, inefficient or badly used agricultur machinery, etc.

The material results of the agricultural structure set up under th colonial régime are here apparent. The great majority of small farmer have incomes too small to live on and are hardly in a position to bett their conditions of production. In many cases they cannot surviv without some other source of income and are often reduced to borrow ing, becoming more and more heavily indebted to money-lenders merchants, or rich peasants.

The small size of many holdings is the cause of this: about half o them cannot produce enough to make their work economically justifi able.[1] The land available is too unevenly distributed; added to this, th underdevelopment of industry keeps 80 per cent of India's population i the villages.

The lack of income with which to improve the material conditions o production results from the fact that a large percentage of tenant-farmers and cropsharers have to pay high rents. Social conditions therefore prevent the true producer from earning a satisfactory income. The situ ation of the 'cropsharers' is even worse, for they are not usually given the same land every year and thus have little interest in its upkeep and development.

In addition to this, about one third of the farmers—in some regions as much as 90 per cent—are heavily in debt. Productive investment is evidently at a minimum. The productivity of most farms is bound to remain low.

The adverse effect of merchant and lending capital on production should not be overlooked. Few peasants can increase their production

[1] About 52 per cent of the smallest occupy only 6 per cent of the land under cultivation, whereas 10 per cent of the biggest occupy more than 40 per cent of the land under cultivation (calculated from the *N.S.S.–10*, p. 34).

ithout borrowing the money they need for selected seeds, fertilizers, rrigation machinery, etc., but high interest rates reduce any profit from ncreased production to a minimum (that is, when they do not com- letely eliminate the possibility of a profit). This is not all. The money- ender, who is often the local merchant, is not likely to agree to loans hich might lower sale prices by increasing the harvest. The higher he prices, the greater a merchant's profit. Even where there is no ending involved, the grain merchants often exert pressure on the easants whose produce they buy to limit their output. It is difficult or the peasants to escape this pressure.

The village market is seldom a free market. The peasant is entirely ependent on the local merchant, who buys a pre-determined quantity n order to make the highest possible profit. A Calcutta correspondent f the *Economic Weekly* has stated that the Bengal market is controlled by the *mahajan* (local rice merchant or money-lender) who is himself ubservient to the big grain merchants and factory owners. Food pro- duction is deliberately limited to give the intermediary the highest possible margin of profit—which means preventing any surplus of grain production.

If part of the land available were grouped into large holdings, this would certainly allow the richest proprietors to use the surplus profits for increasing productivity. Some farmers were doing so at the time of Independence, but the practice was by no means widespread.

The use of fairly large profits mainly for consumption was, however, widely practised. Moreover, savings out of income were mainly used to buy land (which was usually then let to tenant-farmers or cropsharers) and to serve as commercial or lending capital.

(a) In the years following Independence, and even today, commercial and lending capital formation was the main form of rural accumulation, whereas agricultural capital formation was rare.

We know little about productive accumulation in the past. The few inquiries carried out shortly before Independence or shortly afterwards show there was very little.

According to the *N.S.S.*, the total value of all implements (including carts and wagons) was something like 69 Rs. per holding. The total sum of capital engaged in agriculture and stock-breeding (excluding planta- tions) was estimated to be 26·5 thousand million Rs. in 1949–50, (8) i.e. about 25 thousand million Rs. excluding capital for State irrigation works. This is equivalent to about 90 Rs. per acre, cattle representing

74 Rs. and agricultural implements less than 10 Rs. The figures inclu loss of value through wear.

Because there was little accumulation in the past, the means which th peasants use to do their work are very restricted and usually inefficien A large number of holdings do not even have primitive ploughs (not t speak of a steel-bladed plough) and only about half of them own harrow There is an even greater lack of irrigation machinery.

(b) The productive agricultural accumulation (9) totals about 1· thousand million Rs. a year in gross investments, 1·25 thousand millio Rs. in net investments, and about 2·8 per cent of the net income fro agriculture. (10) The low rate of capital formation is significant. I explains why there is almost no rise in agricultural production, and show to what extent the agrarian structure hampers development of produc tive forces in agriculture. (11) The resistance is so great that there is falling-off of investment out of capital inherited by owners of small an medium-sized farms. Each year, the latter are forced to sell a part o their lands to the big landowners, liquidate a part of their other posses sions, and go deeper and deeper into debt. (12)

3. *Unemployment and Underemployment*

India's lack of agricultural development is the more tragic as she ha immense reserves of unemployed or underemployed labour which, i the social structure were different, would be an enormous advantage They could be systematically employed in land improvement, irriga tion, draining, reforestation, and to combat soil-erosion, and thu increase productive forces to a great extent. The example China ha given in the last few years shows how quickly the unemployed labour potential can accelerate agricultural production.

It is a recognized fact that there is underemployment in rural India Male agricultural workers can find only an average of 190 days' work a year and the women 120 a year. (13)

Much the same is true of farmers. An enquiry made in West Bengal showed that the farmers of that region did productive work for only four months of the year (on the basis of an 8-hour working day)—and that not even for agricultural work alone. (14) The situation is much the same throughout India, except where irrigation development allows for two or three crops a year.

The considerable wastage of working potential continues despite the very low productivity of labour due to primitive implements and bad

production conditions, and despite the loss of working time caused by these faults. (The time wasted, officially termed working time, could be saved if the social structure were different.)

A particularly striking example of time wasted through bad produc tion conditions can be seen where farm land is divided up into small strips. On the farms of West Bengal (according to the above-mentioned report) each peasant has to work, on an average, eight separate pieces of land, each about one-third of an acre in size. Almost 70 per cent of the strips are no bigger than a third of an acre.

The cutting-up of land causes great wastage of human and animal effort, and also means that the land marking boundaries is left untouched.

Despite the waste of animal force which is included in 'working time', the animals are occupied for only a small amount of the time. Neverthe less, holdings in West Bengal of less than 3·75 acres—nearly three-quarters of the total number, in fact—have too few oxen to be sure of producing a regular crop without an excessive time-loss. Most of the animals belong to the bigger holdings.

These brief particulars show that the agricultural weaknesses can be traced to a defective social and economic structure. The social and eco nomic structure of the non-rural, non-agricultural population is also affected by agricultural defects. And the rural caste-system is reinforced.

4. THE RURAL POPULATION NOT ENGAGED IN AGRICULTURE

After Independence, about 20 per cent of the rural population earned the main part of their income from non-agricultural activities, mostly in artisanal work, domestic service, transport and trade. The situation is much the same today.

From the 1951 Census, provided that certain points are reconsidered, we can estimate that the non-agricultural rural working force (15) consisted of nearly 21 million persons in 1952–3. This force was distributed as follows. The figures are in millions. (16)

1. Small enterprises	6·6
2. Domestic services, personal and health services	3·2
3. Railways and communications	0·5
4. Other trades and transports	4·3
5. Professions	1·7
6. Administration	2·3
7. Mines and Processing Industries	2·3

Activities under the headings numbered 1, 2 and to a certain extent and 5 can be called traditional, while the others have developed fro urban and organized industries.

The traditional activities correspond to the old trades and crafts whic made the village a more or less self-contained economic unit. Village li was one of the chief characteristics of ancient India and still, to a gre extent, of India before colonization. It depended on close co-operatio between industry and agriculture. The products or services of the villag craftsman were destined for the village cultivators, who provided for th craftsman's needs. This division of labour was not based on an exchang of merchandise. Only when production outstripped the needs of th village, or when debts had to be paid to those in power, was there an exchange.

The main traditional craftsmen were the blacksmith and the carpente who produced and repaired agricultural implements, the potter makin pottery, bricks and tiles, the weaver, the barber, the washerman, and (i some cases) the gold- and silversmith. The village also supported Brahmin astrologer, an accountant, a water-controller, a field-guard etc.

The old professional structure was based on a caste system which became more and more rigid. The British occupation slowly changed th professional system, ruining the overtaxed peasants, developing exchang and monetary economy, reducing millions of craftsmen to povert through competition from modern industrial goods.

However, some of these professions still exist in the villages and follow the traditional methods, but often in a degenerate form since the crafts-men work both for the farming families and at the same time for th market. The relationship between craftsman and cultivator, and the ex-tent to which the craftsman deals in money, vary considerably accordin to region and to profession. It is therefore impossible to give an overal picture. Throughout the country one can see all the stages betwee production for the needs of a small community and open-market pro-duction. Outside the towns, most of the craftsmen use their own mean of production, using traditional techniques. Only exceptionally does non-agricultural rural production come from enterprises of a capitalist type employing hired labour.

In the village, capitalist enterprises are not normally production enterprises but commercial firms trading mainly in cereals and cotton and lending both in kind and in money.

Since the non-agricultural rural population varies considerably in its composition, it is useful to give an example.

The following comments are taken from L. Dumont's description of a sub-caste of Southern India.

Washermen, barbers, and carters owed certain services for which they could demand payment, usually in kind. But the potters worked for neighbouring markets where the village women went to buy goods. The only goods they provided according to the traditional agreements were what was required for the illuminations during the Kartikkai festival.

The normal payment for work was a certain amount of grain distri-buted after the harvesting, 4 marakkals[1] going to the carter, 3 to the blacksmith (who lived in another district), 5 to the washerman, and 3 to the barber. 'The barber and the washerman also received a handful of food prepared for each house both morning and evening. A woman or a child goes around the houses to collect this food.' (18) (There are extra distributions of food at festivals or at family ceremonies.)

Our example shows how little money is used in the rural economy (19) and how much remains of the old non-commercial relationship between village industry and agriculture. (17)

Non-agricultural Income in Rural Districts

Statistics concerning income from the non-agricultural work of different social and professional groups in rural districts should be treated with care. We shall nevertheless quote some figures to give a rough idea of the quantities involved.

According to estimates for 1952–3 (20), the Net Annual Income per working person in rural districts was 355 Rs. for domestic workers, 365 Rs. for those engaged for personal or health services (mainly barbers, washermen, etc.), and 435 Rs. for administrative employees. These three classes therefore had a lower average income than that of the agriculture working force since the average net income *per capita* of the latter was 445 Rs.

The following groups had a higher average income than that of the agricultural working force: workers in small enterprises (880 Rs. per worker), in the professions (915 Rs.), in trade and transports other than railways (1,395 Rs.). (21)

These figures are only rough estimates of limited significance.

[1] The marakkal = 73·4 ounces (cf. H. D. Malaviya, *Land Reforms*, *op. cit.*, p. 192), or about 2 kg.

Persons of very different social situations are often included in the same group. This applies in particular to the 'Small Enterprises', where one finds craftsmen working in the traditional manner and those working for the open market together with owners of small businesses and even their employees. No figures are available for particular social groups, although these would have been more instructive. Nor are there any statistics covering the income of rural moneylenders. As we shall see, the latter are economically powerful in the villages as are the *Maliks* and the landed proprietors.

Two other points arise:

1. It is certain that the low standard of living among those who live from agricultural work, and who make up the largest part of the rural population, depresses the average income of all the other categories of rural workers.

2. The small real income of most village craftsmen is also a result of their inefficient techniques. Yet their small income prevents them from improving their primitive methods of production. Most of them can only afford primitive, hand-made tools.

In fact, India's rural districts are not nearly as well developed (either economically or socially) as the towns. This is not unusual in the world today, but it is particularly striking in India. As in most colonial or semi-colonial countries, her cities have developed in step with the world market and the countryside has been left behind. The lack of progress in rural India has materially hindered any change in the caste system.

5. THE CASTE SYSTEM IN RURAL LIFE

The caste system was legally abolished under the Indian Union's Constitution, but it has not disappeared. In the eyes of the law, two persons belonging to different castes may marry; such marriages occur, but they are rare. Nor does the law recognize untouchability. In theory, it punishes any who openly discriminate against 'untouchables'.

Our remarks on this subject apply not only to the years immediately following Independence, but are valid for the present day as well. There will be no need to return to this question in Part Two of our study. The caste system is of much less importance in the cities; what little we have to say about castes in urban life can be found in the Annex to Chapter V.

We do not intend to describe the caste system in great detail or to discuss its origins and its sociological aspects. These questions are highly controversial and little explored; they are best left to specialists. We shall merely give a brief view of the system and its effect upon the economic, social, and political life of modern India.

The Main Characteristics of the Caste System

C. Bouglé defines the caste system by means of 'these three points: hereditary specialization, hierarchical organization, mutual repulsion'.[1]

L. Dumont defines it from a formal point of view as a system of '*polarité hiérarchique*', adding that India has 'instituted inequality'.[2]

There still exist a large number of castes among which there is no intermarriage and which have an hereditary specialization. More than two thousand groups have been counted, but the figure is deceptive because many of the castes are divided into endogamous sub-castes.

It is difficult to say how many members any one caste contains or where they are concentrated. According to Irawati Karve, who defines a caste as an endogamous group, most Indian castes number less than 200,000. There are however larger groups; for example, the *Marathas* of Maharashtra who number about five million, drawn from various tribal elements.[3]

Our notion of 'caste' is that which corresponds to the Sanskrit term '*Jati*' ('he who is born'), a concept used by most French sociologists after the traditional Indian custom.

Two different endogamous castes can do the same work and even use the same name, provided they live in different regions. If they live in the same region, their caste-names will be slightly different. Thus I. Karve notes that in the districts of Khandesh, in the north of Maharashtra, there are two different castes of *Khumbars* (potters). One is called *Thor Chake* ('with a big wheel') and the other *Lahan Chake* ('with a small wheel') according to the traditional size of the potter's wheel they use. In the whole of Maharashtra, there are about ten castes of *Khumbars*, each with its own culture and traditions. I. Karve goes as far as to say that these castes are often different ethnic communities with different blood-groups and different bodily proportions.

The castes of any region form a hierarchy in that each is understood to be 'higher' than some and 'lower' than others. The existence of the

[1] C. Bouglé, *Essais sur le régime des castes*, p. 32.
[2] L. Dumont, *A Contribution to Indian Sociology*, p. 18.
[3] Irawati Karve, 'What is Caste?' in *E.W.*, January 1958, pp. 133–4.

hierarchy is proved by the fact that lower castes will accept food fr members of a higher caste but not *vice versa*.[1] At Sharmipet, all t castes except the *Panch Brahma* group accept food from the Brahmin All the castes, with the exception of the Brahmins, accept food from t *Komtis*, but the latter only from the Brahmins. Members of castes whi are more or less on the same standing usually accept food from o another and may eat together (which never happens with members two castes of different levels); but, according to the rules of the ca system, there can be no intermarriage. In the villages these rules a strictly observed.

Each caste has its religion, ritual, rules for marriage, rules about foo and taboos. The Brahmin castes are vegetarian, except when they a *Shivayits*, although some of them eat fish (those from Bengal in pa ticular).

Each caste has a *panchayat* (council) which makes sure that the cas rules are respected. The members of the *panchayat* are chosen by trad tional methods, hereditary right being one of the important factors.[3]

The caste *panchayat* has no legal means of enforcing its decisions, b the weight of public opinion—in the villages at least—is enough prevent any disobedience. However, if a person goes to live in a town h usually escapes the influence of his original *panchayat*.

According to traditional and religious teaching, the castes are of fo categories or 'colours' (*Varnas*).

Most texts place the Brahmins[4] highest in the order, being the pries hood caste. Then come the *Kshatriyas* (the warrior castes, theoret cally, from whom the kings were chosen): the *Vaishyas* (merchants and finally the *Sudras* (servant castes). The members of the first tw *Varnas* are considered to have been 'born twice'. This means that the male members undergo initiation ceremonies and are thus spiritual reborn. They then have the right to wear the 'sacred cord'. (22)

Except for the Brahmins, the castes do not always conform to th

[1] The difficulty being, as we have remarked above, how to classify the cast exactly. They may change place over a period of time. L. Dumont rightly spea of 'a real but variable hierarchy of castes'. (*Une Sous-caste de l'Inde de Sud*, p. 16

[2] *An Indian Village*, p. 37. S. C. Dube later notes that the lowest type *Madiga* refuses food from all except *Madigas*: there are then two exclusi groups, one at the top, the other at the bottom, of the scale.

[3] See Chapter IX for more details about the organization of the *panchayats*

[4] There are many castes of Brahmins. I. Karve puts the number at more tha 200. ('What is Caste?', *E.W.*, 1958, p. 125.) Each is endogamous, each has its ow ceremonial (*ibid.* pp. 127–31).

theoretical scheme. L. Dumont shows that the *Kallars*, who are usually classed among the *Kshatriyas*, can also be counted among the *Sudras*. Some farmers who should belong to the *Vaishyas* are classed among the *Kshatriyas*. (23) In fact, the theoretical classification is not as important as the hierarchy which is accepted in each region.

There are some castes which are not included in the four *Varnas*, and have been called 'outcastes'. They have their own hierarchy, and their members live outside the centre of the village. This is the group called the 'Untouchables'. In point of fact, the theoretical distinction between the *Sudras* and the 'Untouchables'[1] does not always seem to be applied.

Castes and Occupations

If we are to see how much effect the caste system has on social and economic affairs, we must first find out whether belonging to a certain caste determines a person's occupation. In theory, the system does not lay down what work a person shall do, but reserves access to certain occupations.

The point which must be understood is that the close relationship between a person's caste and his occupation is due to the absence or underdevelopment of monetary economy. There must always have been some changes of occupation, but as long as the traditional system of demand and counter-demand exists it will be very difficult for anyone to change his type of work. The community expects contributions of a particular sort from him, and only if he respects the traditions will he be paid in return what is traditionally his reward.

Things change completely where monetary economy is developed. Nothing forbids members of a caste from doing work different from the traditional activity of their caste, except a few specific religious interdictions which are extremely limited in scope.

Irawati Karve remarks on this point:[2]

'When opportunities for some work other than hereditary occupation arise and are more paying, full advantage is taken of them by all

[1] S. C. Dube writes that the traditional system of the *Varnas* divides Hindu society into five groups, the fifth being the 'Untouchables' (*Indian Village*, p. 35). But traditional texts only mention four (cf. Bouglé, *Essais sur le régime des castes*, p. 29). Some authors consider the fifth group to be a subdivision of the fourth *Varna* (cf. I. Karve, 'What is Caste?', *E.W.*, 1958, pp. 881, 882).

[2] I. Karve, 'What is Caste?', *E.W.*, 1958, p. 407. The same author observes that whenever a *panchayat* has pronounced a sentence of exclusion from any caste, to her knowledge 'none has been pronounced for change of occupation'. (*Ibid.* p. 407.)

castes. . . . In the district of Salem in Madras State, weaving is occupation in which almost every caste except Brahmins are engag The author has seen whole villages made up of the castes of *Chet Reddy* and *Vellala* engaged in weaving, and it is difficult to s whether the hereditary occupation or this new one is the prima occupation today. Besides these, weaving is also done in this area castes who are hereditary weaver castes: The change in occupati has not affected the endogamous character of the castes.'

Examples of Brahmins filling very different posts (moneylende merchants, soldiers, civil servants, landlords, etc.) are quite comm and have been so since the eighteenth century. A. H. Hocart gives ma illustrations of this point, and remarks that 'Manu authorises the ca of priests to live by agriculture and manual labour'.[1]

The link between these changes and the growing penetration money into the village economy is well stated by S. C. Dube in h observations on the village he studied':

'. . . in the last few decades the occupational character of caste h undergone some modifications. In place of their traditional occup tions, people have started accepting other vocations. The tradition system of caste interdependence under which artisan and occup tional castes attach themselves to the families of agriculturists is st there. But the attached labourers of untouchable castes are showi signs of discontent, and figures for the last ten years show twenty-o migrations of *Madiga* families to the city. Barbers, washermen a carpenters also openly express preference for a basis of cash paymen as that enables them to negotiate and bargain and puts an end to t uncertainty and occasional high-handedness of the employer und the old system. The traditional arrangements involving the barter occupational services between artisan castes are now also giving pla to a basis of cash payment.' (24)

It should be noted that the transition from the system of an exchan of goods and service to one of monetary exchange not only gives membe of a caste freedom from traditional requirements, but also permits change in techniques because it becomes possible to buy new produ tion tools. Thus, in Sharmipet, the barbers, carpenters, blacksmiths a metalworkers use machine-turned instruments.

[1] A. M. Hocart, *The Castes*, pp. 2–4.

The Economic Consequences of the Caste System

Can we conclude from the above observations that the caste system is simply a private matter, a sort of grandiose masonic system, and that it has no real effect on the social, political and economic development of the country?

The answer must be no. First, there can be no doubt that even if general economic conditions are favourable, the caste system strictly limits social and professional mobility. This is essential for effective economic development in that it allows working capacity to be used to the maximum. It is the village which suffers most,[1] for it is not easy to break the traditional bonds uniting agriculturist families to families of craftsmen, nor to dispel the idea that someone who follows the traditional calling of his caste is acting in a more 'suitable' way than someone who takes up a different occupation.

S. C. Dube mentions the fact that if a farmer is not satisfied with the work of the craftsmen who is traditionally attached to his family, it is not easy to approach another:

'His difficulty will not be in dismissing him, but in finding a substitute. Each of these castes has its own inter-village council. Occupational castes have a developed trade unionism, and their code of professional ethics and etiquette too is very rigid. The dismissed person will be protected by this professional etiquette. No one else would be willing to act as a substitute, for fear of being penalised by the caste *panchayat*. It may even be difficult for a number of families to join together and import a family belonging to that occupational caste from a different village. First, under these conditions of tension, an outside family would not come for fear of social pressure and ultimate ostracism for such an action. And if they do come, the caste fellows already in the village will make things very difficult, even unbearable, for them.'[2]

It is not this aspect of the caste system which has the worst effect on economic and social progress because with the growth of the towns and of a monetary economy, the above-mentioned difficulties solve themselves. If there were not so much underemployment and unemployment, the members of the different castes would have less reason for holding on to

[1] As we shall see later, the caste system is much weaker in the towns and there is not the same difficulty in changing occupations. But its economic—and above all its social and political—consequences are just as great.

[2] S. C. Dube quotes three cases of tension between the employer and an employee, and their solutions (*op. cit.* pp. 61 *seq.*).

their occupational 'privileges' (and for acting as did the guilds France under the *ancien régime*). Social and professional mobil would be greater. But, in fact, the main obstacles in the path of econom development are to be found elsewhere.

One of the most important points is that the social status of a individual is essentially hereditary. He cannot change it by his o effort or ability, because his social position is pre-determined by t caste to which he belongs. What personal respect he can earn will won by accepting the rules of his caste and the condition to which was destined at birth. (25)

He who attempts to better his social position must face the hostility public opinion and even violent reactions from members of 'high castes than his own.

A. C. Mayer writes in *Land and Society in Malabar*:

> 'Though theoretically anybody with wealth enough can purcha land, the buyer's previous social status makes it hard, even dangerou for him to press his legal equality too far if he belongs to one of t lower castes.' (*op. cit.* p. 133.)

The author then quotes the case of a *Pulaya* who, after acquiring so land, died in 'highly suspicious circumstances'.

One of the negative consequences of the system derives from the fa that the most highly-placed castes are by tradition inactive and do physical work. The prestige of these classes is great, and therefore t other classes tend to look upon work in general, and physical work particular, as a lower form of activity.

It must be understood that the Brahmins are not necessarily the dom nant caste. In local hierarchy, those who have a fairly high rank a the biggest economic resources are the most powerful. (26) But eve where the Brahmins are not the dominant caste, they may have t greatest prestige. In any case, the scale of values inherent in the cas system is completely opposed to the values of an industrial civilizatio

Another important aspect of the caste system is the traditional so darity among members of one caste. This strengthens the hold of t more powerful castes on the weaker ones, and may prevent them fro making any attempt at independent economic progress.

Srinivas, in his study of the *Coorgs*, shows that the dominant castes the region (the *Okkaligas*) can impose their will on villages when the is a dispute. This is true even when Brahmins are involved.

The power which caste solidarity gives to a dominant caste can also be measured in economic and political affairs. The manager of an organiza-ion will collaborate more readily with the members of his own caste han with others of the region who may be more capable. The *R.C.S.* otes that in the case of co-operative societies: 'If a *Reddi* is president f a society, all its employees are *Reddis*. If a Brahmin is president, all he employees are Brahmins.'

Political and Social Consequences

Here again, the caste system has many evil effects. A system of legalized inequality', to repeat L. Dumont's expression, is obviously the pposite of a democracy giving equal rights to all men.

It is amazing that in the villages every caste upholds these inequalities. All but the very lowest castes find some way of proving their superiority o the other groups. This ideology goes beyond the Hindu population. The Christians of Southern India who come from the superior Hindu astes will not sit next to members of their religion coming from 'lower astes'. Some churches have had to be specially constructed so that the ifferent classes can be separated.

There is also a hierarchy among the different tribal groups. The *Raj Gonds* from the region of Hyderabad consider themselves superior to nother tribal group, the *Kolans*, who in turn consider themselves superior o the *Pardhans*. (27)

Religious communities (Sikhs, Muslims, Jains, Parsees) and geo-raphical groups (Marwaris, Gujarats) are often treated by members of he various castes as if they also had a particular position in the caste ystem.

The ideology behind the caste system not only breeds inequality; it lso teaches the 'higher' castes to despise members of the 'lower' astes and sometimes to prevent them from using political power when a 'lower' group wins it by force of numbers.

Cases of this sort have arisen through local elections. Members of higher' castes have been known to withdraw from an election, leaving he power to the 'lower' classes; they have then shown that the power ained was a mockery. The 'higher' classes (being those who own the and and the money) can often count on the support of administrative uthorities representing the central power, notably the police. Hence heir derision of elected office.

Another major point is that caste solidarity is often more important at

elections than political views. Political parties sometimes use t fact by presenting a candidate from the largest caste in the area. T elector, on the other hand, expects those elected to surround themsel with members of their own caste. M. N. Srinivas has remarked (28) t the caste system is so closely involved in India's social and politi affairs that everyone, including the leading politicians, tacitly accep the need for a minister to represent each main caste in the Provinc Cabinets. Srinivas also pointed out that in the first government Mysore State not only were the ministers chosen on a caste basis, b each had a secretary representing the minister's sub-caste; and that, the time of writing (1955), caste still determined political nominatio and even influenced the allotment of places in schools.

This state of affairs is particularly acute in Southern India. It o increases the sense of caste solidarity and aggravates the tension betw castes. Institutions cannot function correctly. Instead of ideologi differences within a bourgeois democracy, there is a system of ca oppositions; this hinders the formation of political class forces becau the main social classes are themselves divided among a large number castes. Many events in the social and political history of India can traced to the influence of castes or of religions.

Criticism of the system and propaganda against it are powerless change something so solidly rooted in Indian life. Only economic dev opment, the penetration of monetary economy into the villages, and change in the agrarian structure, would alter the traditional identificati between 'dominant castes' and 'lower castes'. And only then wou education be extended to all, industrialization succeed, and the ca system slowly dissolve.

We can see from the workings of the caste system in urban life that t growth of the towns and of industrialization weakens the system. B before going into this matter any further, we must recall the state industry and the urban structure in the period immediately followi Independence.

NOTES TO CHAPTER 2

(1) H. D. Malaviya, *Land Reforms*, pp. 163–4.
(2) Daniel Thorner, *The Agrarian Prospect*.
(3) See the works by Daniel Thorner quoted in the Bibliography.
(4) D. Thorner, *Land and Labour in India*, p. 143.

(5) *v. A.L.E.-I.S.*, table VII, p. 7 of Appendix VII.
(6) The main sources of the statistics used for these estimates are: *.E.F.M.W.B., A.L.E.R.M.P., F.R.N.Y., R.C.S., 8th Round N.S.S., .S.S.-10.*
(7) Despite the reserves that can be made about the *R.C.S.* (see . Thorner's remarks in the *E.W.* July 1960: 'The All-India Credit urvey viewed as a scientific enquiry', pp. 949 *seq.*), the Survey makes n interesting point: the sum of current investments in other than land nd stock was quite high among the most important cultivators in West ttar Pradesh, in Deccan, and in some regions of Bombay and Madras *. R.C.S.*, vol. I, pp. 628 *seq.*). But in most regions, there was no indica-ion that investment in tools and equipment was proportionate to the ize of the holdings, which means that production conditions were much he same for all sizes of holdings.

An enquiry made in West Bengal seven years after Independence, ublished under the title of *Studies in the Economics of Farm Manage-ent*, also shows that there is no visible change in production conditions nd equipment for holdings of differing surface areas (*v.* in particular he tables on p. 44 and on the following pages).
(8) *v.* 'Estimate of the Reproductible Tangible Wealth in India, 949–50', by Uma Datta and Vinod Prakash, published in *P.N.I.*, pp. 47–58, and in particular pp. 247–9.
(9) *v. India* 1957, New Delhi, 1957, p. 192–3 and 'Estimates of omestic Fixed Capital Formation in India: 1948–9 to 1954–5' by aldev Kumar (in *P.N.I.*, pp. 122–3.).
(10) The above figures are not directly comparable with those for he funds already immobilized in agriculture, for the latter include the alue of the herd, here excluded. However, land improvement works are ncluded in the current capital accumulation, whereas the value of land s not counted in past accumulation.
(11) It would be interesting to estimate what influence the size of a olding has on the total of its current investments. This would give s an idea of how the agrarian structure, investments, technical im-provements, and the development of production are related to one nother. It would also show how rural capitalism is developing. Unfor-unately, the statistics available are not reliable enough. With every eserve, here are a few of them. According to the table II–37 of the *R.C.S.* vol. I, part I, *op. cit.* p. 629), gross current investment per unit of urface area varies in *inverse proportion* to the size of the holding. The

investment in dead and live cattle and in land improvements comes 15·9 Rs. per acre for the 'big cultivators' (first three tenths), 16·4 per acre for the 'medium cultivators' (next four tenths), and 19·3 per acre for the 'small cultivators' (last three tenths). Even the 'v big cultivators' (first tenth) make a gross investment per acre lo than that of the 'medium cultivators', although it is higher than average of the 'big cultivators', being 16·2 Rs. per acre.

The fact that small and medium cultivators make a higher gr investment per acre than the big cultivators does not mean that they free from financial worries (land rent and repayment of interest); means either that they are more willing than the big cultivators to ma sacrifices to improve their land, or else that they are forced to make higher investment per acre than the big cultivators to get the sa amount of produce.

Under-consumption, debt, and increasing poverty are the results the investments which the smaller cultivators have to make, and whi even so, are not enough to ensure the progress of Indian agricultu Their personal consumption needs once satisfied, the surplus is n enough to meet the investment expenses which they are called make.

(12) This conclusion is reached by using the *R.C.S.* data (*v.* *cit.* pp. 763–817).

(13) *A.L.E.-I.S.* (p. x).

(14) *S.E.F.M.W.B.*, p. 36.

(15) The rural population is defined as those living in agglomer tions of less than 5,000 inhabitants.

(16) *v.* the *P.N.I.*, p. 157; the figures are taken from the artic by S. K. Chakravarti, Uma Datta, and V. Srinivas: 'The Share Urban and Rural Sectors in the Domestic Product in India in 1952–

(17) This method is described in W. H. Weiser's book, *The Hin Jajmani System*.

(18) L. Dumont, *Une Sous-caste de l'Inde de Sud*, Paris—La Hay 1957. In this study L. Dumont describes an agglomeration calle Tengalapatti, situated in the south of the State of Madras (the Madu region).

(19) On the basis of the *N.S.S.* data, it is estimated that for th whole of the Indian economy (including the urban sector) self-con sumption of food and non-food products made in the home accounts fo about 40 per cent of total consumption (*v.* P. C. Mahalanobis, *Dra*

ecommendations for the Formulation of the Second Five Year Plan, elhi, 1955). The effect of payment and counter-payment in kind is that part of the produce which is not consumed by the producers themselves not exchanged for money either.

(20) *op. cit.* pp. 423 and 424.

(21) *P.N.I.*, p. 157.

(22) A. M. Hocart, *Castes*, p. 36, and S. C. Dube, *An Indian Village*, 225.

(23) A. M. Hocart, *Castes*, p. 66.

(24) S. C. Dube, *An Indian Village*, p. 225.

(25) Quoted from the *R.C.S.* vol. II, p. 55.

(26) On the notion of 'dominant castes', see L. Dumont, *Contribution Indian Sociology*, pp. 27–37.

(27) S. C. Dube, 'A Deccan Village', *E.W.*, May 8 1954, p. 528.

(28) M. N. Srinivas, 'Castes. Can they exist in the India of Tomor-ow?', *E.W.* Dec. 15 1955, p. 1230.

III

THE DEVELOPMENT OF INDIA'S INDUSTRIAL PRODUCTION AND ITS STRUCTURE

THE FIGURES quoted in Chapter I show that there is very li industrialization in India. Only 2 per cent of the total working forc employed in the organized processing industries: just after Indep dence they produced a little more than 6 per cent of the National I come, or the equivalent of about $3.00 per inhabitant.

These figures should not induce us to underestimate India's industr resources. Nor should they obscure the fact that many fairly power industries do exist. In several towns, the decisive sector of the popu tion is the classes representing modern industry. This we shall see in t next two chapters. We shall try to give an overall picture of the importa social and economic problems facing India after Independence in th parts of society directly or indirectly affected by industrial and urb development.

India's Industrial Resources

India's industrial resources are exploited to an even smaller exte than are her agricultural resources. Her industrial resources make h one of the richest countries in the world.

India's iron ore deposits are estimated at 21 thousand million to which is a quarter of the total world deposits. About 6·8 thousa million tons of ore have been located. Considerable deposits of hemat exist in Bihar, Orissa, Madhya Pradesh, Mysore, and the Bomb region. Magnetite has been found near Madras and in Bihar, Oris Mysore and Himachal Pradesh. Large deposits of limonite exist in We Bengal.

India's deposits of manganese are the third largest in the world, bei estimated at 112 million tons, 100 million tons of which have been pr cisely located in Madhya Pradesh and the Bombay region. India al possesses deposits of chromium, gold, bauxite, ilmenite, and vario non-ferrous metals, notably beryl and monazite, which are importa

raw materials for atomic industries. Finally, gypsum also exists, as does mica, the latter deposit being one of the largest in the world.

India is equally rich in her energy potential. It is estimated that 60 thousand million tons of economically workable coal lie beneath her surface. Lignite exists mainly in the Madras region, Rajasthan, Saurashtra, Kashmir, and Kutch. Petroleum reserves are little explored. About 400,000 sq. miles of terrain is thought to be capable of giving petroleum. Hydro-electric power reserves are immense: they are estimated at some 41 million kw. (1)

India's resources as a whole would give her a leading position in world industry, in particular the steel and engineering industries and the chemical industries based on coal.

Given this potential, let us now examine the state of India's industrial development immediately after Independence.

The Decline of Traditional Industry and the Development of Modern Industry

India's industrial situation in 1948 was the result of a long period of change in which modern industry replaced the traditional crafts.

We shall not go into the numerous discussions on the subject of India's 'deindustrialization'. It is, in fact, extremely difficult to follow the exact course of 'deindustrialization' during the nineteenth century. So far, the data available have been insufficient. The proportion of the working population employed in industry and handicrafts is generally thought to have been 25 per cent at the beginning of the nineteenth century, but this figure is only hypothetical. We know, however, that in 1881 the proportion was between 16 and 18 per cent. (2)

Foreign trade statistics best show the effects of 'deindustrialization'. India, still an exporter of manufactured products at the end of the eighteenth century, becomes an importer. From 1815 to 1832 India's cotton exports dropped by 92 per cent. In 1850, India was buying one quarter of Britain's cotton exports. All industrial products shared this fate.

The ruin of the traditional trades and crafts was the result of British commercial policy. Restrictions were imposed upon Indians exporting to the West, while favours were granted to British exporters, who flooded the Indian markets.

After the 1850's, a new trend is established: that of a certain amount of modern industrial development. The building of a railway system is, chronologically, one of the first and most important factors which

influenced development. Marx saw this as early as 1853, writing in t *New-York Daily Tribune* on Lord Dalhousie's proposition to bu railways in India:[1]

> 'But when you have once introduced machinery into locomotion a country, which possesses iron and coal, you are unable to withho it from its fabrication. You cannot maintain a net of railways ov immense country without introducing all those industrial process necessary to meet the immediate and current wants of railway loc motion and out of which there must grow the application of machine to those branches of industry not immediately connected with ra ways. The railway system will therefore become, in India, truly th forerunner of modern industry.'

Sure enough, the main railway centres rapidly became the hubs industrial development.

A second factor also encouraged this development: the decline British industrial supremacy after 1860, challenged in the world mark by German, American, and Japanese competition. British capitalis reacted by building a certain number of modern industrial establish ments in India. Using cheap labour, they managed to defeat foreig competition while bringing in high profits.

The years 1853–5 saw the beginning of British capital investment i India. In the preceding period a part of India's National Income wa going in the direction of the United Kingdom. After 1853 the flow c capital was reversed, although the inflow of British capital was far fron balancing Great Britain's total 'deductions' from Indian capital. (3) Bu the new capital nevertheless contributed to the founding of some indus tries.

Finally, there are the economic and social factors which played decisive rôle in India's industrial development.

Throughout the nineteenth century a mercantile, moneylendin bourgeoisie was taking shape in Indian society, its roots already forme in numerous existing trade centres of varying prosperity. The growth of this class increased under British rule through the development of th means of communication, the ruin of handicrafts, and the taxatio imposed on the peasant class, which caused a commercialization of good portion of the agricultural output. The misery of the peasant clas also favoured the expansion of moneylending.

[1] Karl Marx, *Articles on India*, Bombay, 1951, p. 70.

For several reasons which we shall not analyse here, Indian commercial and moneylending capital was very quickly concentrated and soon became powerful, which helped its partial transformation into industrial capital. This phenomenon gave birth to the cotton industry in particular, which entered into increasingly keen competition with the British cotton industry. (4)

The Rise of Indian Industry since the Beginning of the Twentieth Century.

India's industrial development since the beginning of the century can be judged from the following figures. No information will be given about the working force, as the existing statistics are difficult to interpret and seem to indicate that the numbers concerned have changed very little. However, there has undoubtedly been some movement from traditional to modern industries. The productivity of labour in the modern industries is considerably higher than in the crafts, which is the main cause of the rise in industrial production since the beginning of the twentieth century.

According to calculations made before the war by the economic research service of the S.D.N., if one takes 100 as the basic index of manufacturing production in 1913, the index was 240 in 1938. This means that industrial output had increased four times since 1900. (5) The average annual rise in industrial production was 3·75 per cent for the years between 1913 and 1938. This high rate is appreciably better than the rise in world production during the period (2·4 per cent).

During the second world war, India's industrial output shows another rise, which (according to estimates) was between 10 and 15 per cent between the years 1938–9 and 1948–9.

Between the beginning of the century and Independence, industrial output rose to 4·5 or 5 times that of 1900. (6)

The progress of India's modern industrial production has been favourable. This is confirmed by the rise in the number of industrial workers from less than a million at the turn of the century to about three million just after Independence. But the rise in employment in this sector corresponds to a fall in employment in the traditional crafts. Nevertheless, the output of both handicraft and organized industries has shown an appreciable increase since the beginning of the twentieth century.

The Structure of Indian Industry

Until 1914, India's modern industrial sector consisted mainly of the cotton and jute industries, the latter being almost exclusively British. There was little change during the first world war and until the 1929 depression. There was a slight increase in the development of new industries during the second world war.

The textile industries, together with the tea and sugar-cane industries were still at the top of industrial production after Independence. Then came the metallurgical and engineering industries. The table below gives some idea of the relative importance of the main branches of Indian industry according to the value of their output.

NET VALUE OF OUTPUT IN THE VARIOUS INDUSTRIES (IN MILLION RS.) FOR THE YEAR 1949[1]

Cotton	1,365
Tea	578
Jute	352
Sugar-cane	307
Engineering and electrical industries	272
Metallurgical industries	287
Chemical industries	119
Vegetable oils	68
Tobacco	102
Rubber and rubber products	85
Printing and publishing	151
Cement	55
Aluminium, copper, and bronze	60
Motor-cars and other means of modern transport	104
Paper and cardboard	55
Others	1,026
Total	4,986

We reach a net value of output of 5·5 thousand million Rs. by adding to the above total the sum of industrial products not included in the table, in particular that of electricity, which totalled 165 million Rs. including the cost of transmission.

Among the extractive industries (total value roughly 600 million Rs.)

[1] See *F.R.N.I.C.*, p. 66.

coal-mining leads with a total estimated value of 477 million Rs. in 1949.

The above figures testify to the basic weakness of Indian industry, especially in the metallurgical and engineering industries. The result of this situation—and we shall take up the point again—is that any large industrial development in the India of 1948–9 required imported machinery since the national industry could not supply what was necessary. As we shall see, one of the main objectives of the Second and Third Five-Year Plans on the industrial side has been to try and remedy the unsatisfactory structure of industry.

To sum up, the low total value of production in Indian industry does not mean that there was no attempt at development in the years before Independence. Some industries (cotton, jute and tea in particular) were potentially quite powerful in 1948–50, and their output reached a high percentage of total world production in these respective industries. The metallurgical and engineering industries were by no means non-existent, but their output was not nearly sufficient for the needs of industrial expansion in a highly populated and potentially rich country.

India's unsatisfactory industrial development obviously affects the size of the typical social groups in the urban sector of modern India.

NOTES TO CHAPTER 3

(1) See *India* 1959, pp. 13 and 14. See also J. C. Brown and K. Dey, *India's Mineral Wealth*, 3rd edition, London 1955; Council of Scientific and Industrial Research, *The Wealth of India: A Dictionary of Indian Raw Materials and Industrial Products*, 4 volumes, New Delhi, C.S.I.R., 1948–57; K. C. Ghosh, *The Economic Resources of India and Pakistan*, Calcutta 1956; M. S. Krishnan, *The Geology of India and Burma*, 3rd edition, Madras 1956; O. H. K. Spate, *India and Pakistan*, 2nd edition, London 1957; D. N. Wadia, *The Geology of India*, 3rd edition, London 1953.

(2) On the working force and its structure in 1881 and at present, see various works by D. Thorner, particularly 'De-Industrialization in India 1881–1931' (a paper read before the Congress of Economic History held in Stockholm in 1960), and the works of Daniel and Alice Thorner, *Comparability of Census Economic Data 1881–1951*.

(3) In fact it is easy to show that during the whole period of British rule, more capital was exported from India to the United

Kingdom (or 'recalled', as is usually said) than was imported i
India from the United Kingdom.

Only between 1853 and 1866 does there seem to have been a net co
tribution of British capital to Indian capital formation. This was main
due to the construction of railways and to investment in jute, tea a
coffee plantations. During this period India's balance of trade was u
favourable, which was unusual for British India.

After 1866, India exported more than she imported, which is the si
of net 'deductions'. But the sum of British investments in India co
tinued to increase, without net additions. Considerable sums we
deducted from the Indian National Income by the British in the form
interest, dividends, and capital recalled. Admittedly, more profits fro
foreign capital were ploughed back than were recalled.

Although this subject has often been studied, we have little preci
information about foreign investments and the corresponding forei
debt for the period before Independence.

According to the estimates of Dukh Haran Nath Gurtoo, India
foreign debt stood at 4·7 thousand million Rs. in 1920 and reached
maximum of 9·2 thousand million Rs. in 1933. Of this sum, 5·1 thousa
million Rs. corresponded to the debt of various public authorities.

India's foreign debt decreased after 1933, and was no more than 5
thousand million Rs. in 1948 (according to the same estimates). T
decrease was solely due to the fact that the public authorities repa
their part of the debt fairly quickly. However, private investments we
much larger in 1948 than in 1933, totalling about 5 thousand million R
although many British enterprises had been sold to Indians as well as
large amount of stocks and shares.

On India's balance of payments, see Y. S. Pandit, *India's Balance*
Indebtedness 1898–1912, London, 1937, and D. H. N. Gurtoo, *India*
Balance of Payments 1920–60, New Delhi 1961; also D. Thorner, *I*
vestment in Empire.

(4) India's modern industrial development was at first violent
opposed by the British, and particularly by the Manchester Chamber
Commerce. In 1869, the Manchester Chamber managed to get t
customs duty on cotton imports abolished. In 1882, almost all the impo
duties on cotton were abolished. They were restored in 1894 f
budgetary reasons, but the English industrialists were able to get
3·5 per cent tax imposed on Indian cotton goods, which was exact
equivalent to the customs duty on foreign goods. This tax was n

abolished until 1925, after the Indian textile workers had come out on strike. It is obvious that the British industrialists did not want to encourage Indian industrial development.

(5) *v. Industrialization and Foreign Trade*, League of Nations, 1945, pp. 134–5.

(6) According to the estimates of Dr K. Mukerjee of the Ghokale Institute of Economics and Politics in Poona, the index for industrial production (on a basis of 100 in 1935–6) rose from 25 in 1900–1 to 172 in 1952–3, while the index for mining production (on the same basis) rose from 28 to 193. (*v. E.W.* September 17 1960, p. 1399.)

IV

THE BOURGEOISIE AND CAPITAL

DESPITE the weakness of Indian industry, one of its principal chara
teristics is the relative strength and concentration of its capitalist secto
The situation of the bourgeoisie and of capital in economic and soc
affairs must therefore be closely examined before passing on to oth
considerations.[1]

It we admit that the non-agricultural bourgeoisie consists of tho
whose taxable income exceeds 10,000 Rs., about 0·5 per cent of Indi
population comes under this category. (1) It is more difficult to deci
how many of the bourgeoisie earn income from agriculture (either
landlords or as capitalist farmers). Treasury figures are complete
lacking on this subject, which makes it hazardous to give even an appro
mation.

Let us suppose that farms of more than 75 acres provide enough i
come for those who receive it to be considered as members of the bou
geoisie. (In this case, the less important *Maliks* can be seen as part
the small rural bourgeoisie.) We find that about 600,000 families,
three to four millions of those living from agriculture, can be include
in the agricultural bourgeoisie. This is about 1 per cent of the populatio
Adding the 0·5 per cent from the towns, the Indian bourgeoisie as
whole totals at the most 1·5 per cent of the population. (2)

The bourgeoisie as we have defined it is therefore very small, but i
economic and political influence is considerable because its income
very high. It holds the key positions in society, its wealth is concen
trated, and it is in close contact with both national politics and th
administration, as well as with foreign capital.

[1] Few of the changes in this field since 1947 have altered the situation, and w
shall include some comments on recent years in this section. There is not enoug
difference between today and 1947 to make it worthwhile returning to the subje
in the second part of our study.

1. THE SHARE OF THE NATIONAL INCOME EARNED BY THE BOURGEOISIE AND BY CAPITAL

Treasury statistics (taking into account the probable number of fraudulent declarations) show that the income of the non-agricultural bourgeoisie in 1953–4 was about 8·7 thousand million Rs. in all (3), which was about 16·5 per cent of the year's National Income from other than agricultural sources. The economic power of this group is obviously out of proportion to its size.

The total income given above is only a fraction of capitalist income in the non-agricultural sector, which is also shared among foreign capitalists, the small bourgeoisie, and other elements of the middle classes. In addition to this, a part of the income from capital is not distributed in the form of individual income, but held back by enterprises. We must therefore attempt to estimate the total income of capital. It would seem to be at least 15 thousand million Rs. for the year 1953–4 (using the source quoted above), or 28 per cent of the non-agricultural National Income.

These would seem very high figures for what we have seen to be a weak modern industrial sector. In fact, a great deal of capitalist income comes from non-industrial sources. This is true of interest on lending capital and, in particular, of profits made from the resale of agricultural produce. Such kinds of capitalist income are derived from exploitation of the non-capitalist sector by merchant and lending capital: and this is made possible on the scale to be seen in India by the weakness and poverty of the pre-capitalist sector, its bad production conditions, its low technical level.

According to the estimates of N. Kaldor, non-agricultural income showed the following distribution:

NON-AGRICULTURAL CAPITALIST INCOME (EXCLUDING SALARIES) AND ITS SOURCES

	(in per cent of aggregate income)
Mining and modern industry	37·5
Small enterprises	13·8
Railways, transport and communications	4·7
Banks and insurance companies	1·8
Trade	26·4
Housing rent	15·8

The table shows that mining and modern industry come relatively low on the scale, trade and housing rent relatively high. Income from 'banks' is certainly underestimated, since interest on loans is not included.

The fact that the capitalist sector receives a large part of the National Income means that its productive powers are highly developed. It also means that it has a very strong position in the non-capitalist sector, which it has gained by using pre-capitalist methods. In other words, the capitalist *system of production* in India is not so highly developed as the *real income* in the capitalist sector would suggest.

Another characteristic of Indian capitalism is the concentration of income within a small receiving group. Of those subject to income tax on declared earnings of over 10,000 Rs., only 3·8 per cent had a capital income of over 70,000 Rs. Yet this 3·8 per cent earned 28 per cent of the total income declared by persons with a taxable income of more than 10,000 Rs. (4)

The concentration of high incomes within a small, well-organized group gives its members considerable power. Their incomes may be even higher than the taxable figure, for sums reinvested in the enterprises which they own do not count as taxable personal income. The group increases its power by its hold on centralized industry and on a part of the banking system.

The Indian bourgeoisie's power is limited by the fact that a comparatively large part of big industry's and the banks' modern means of production are owned by foreign capital, mainly British.

One cannot really understand the working of the capitalist sector without taking into account its two opposing forces, even if they are often at truce: on the one hand, foreign capital; on the other, domestic capital controlled by the Indian bourgeoisie and, in particular, by the big bourgeoisie. It is these two forces which we must now analyse.

2. FOREIGN CAPITAL INVESTED IN INDIA

Foreign capital's influence in the Indian economy is much greater than investment figures indicate. To see why this should be, we shall have to examine the way in which it exercises its control over all spheres of the economy.

In June 1948, India's total foreign debt was about five thousand million Rs., 3,261 million Rs. of this being the sum of the private debt. Of these 3,261 million Rs., foreign investments in the true sense of the word totalled 2,876 million Rs., the balance being made up of short-term bank or commercial liabilities.

It is essential to understand that by no means all foreign investments are placed at India's disposal in the form of foreign currency or resources.[1] The major share of these investments corresponds to profit on previous capital investment which has been ploughed back.[2] The original investments were much smaller than the total amount of money recalled by Britain from the Indian economy. Seen from this point of view, the situation boils down to the fact that domestic capital accumulation has been decreased rather than increased by the foreign powers.[3]

The situation did not change in the years before Independence.[4] To see this, we have only to compare the balance of payments and the movement of foreign investments.

At the end of 1953, a year during which the economic policy of the First Five-Year Plan had not yet shown any effect, foreign investments showed the following patterns. (see table on page 58). (5)

We use the word 'investments' in the restricted sense of the word used by statisticians and which is explained in the notes to the above table. It can be seen that the capital directly controlled by foreign investors (8,410·7 million Rs.) is nearly double the amount of actual foreign investments (4,410·0 million Rs.). (13)

The observations made in the notes to the above table being taken into account, the assets actually controlled by foreign capital are certainly much larger. They probably total about 10 to 12 thousand million Rs. for the year 1953.

Before attempting to analyse the extent of foreign capital's indirect influence, we should decide how important these 10 to 12 thousand million Rs. of foreign interests are in the balance of the Indian economy.

It is obvious that 10 thousand million Rs. is only a fraction of India's

[1] We shall return to the question of how the public foreign debt has developed in Part Two.

[2] Sir Arthur Salter shows in a study of how British investments abroad increased between 1880 and 1913 that the increase is entirely due to ploughing back of a part of the profits from previous investments abroad. The self-increase of British investments began a little before 1870.

[3] See Chapter III, note 3, pp. 51–2.

[4] Paul A. Baran has shown in a brilliant study how the debts of almost all underdeveloped countries have increased (without anything more than a small initial investment of foreign capital) by the building-up of those profits left in the country. The rest of the profits are recalled abroad as income for the capitalists of industrial countries or as new investments in the home countries. (Cf. Paul A. Baran, *The Political Economy of Growth*, pp. 178–9.)

total reproductible capital: probably less than 1 per cent. (14) However, the major part of her capital is invested in agriculture and housing, giving little direct contribution to market production. Another part of the wealth which is invested in market production corresponds to the means of production of small producers who just manage to keep in business: this part of the national wealth has almost no effect on the formation of surplus investment capital.

FOREIGN INVESTMENTS AND THEIR SPHERE OF INFLUENCE

	Value of foreign investments (in million Rs.)	Capital directly controlled by foreign investors and functioning in India (in million Rs.)
Shares in portfolios (6)	700·4	700·4
Branches of foreign firms and companies (7)	2,261·9	3,085·2
Branches of foreign banks (8)	119·0	2,008·2
Branches of foreign insurance companies (9)	60·8	479·7
Branches of foreign companies (10)	974·8	1,127·9
Companies of which more than 40 per cent of the shares are held abroad (11)	167·9	267·1
Companies under foreign management (12)	125·2	742·2
Total	4,410·0	8,410·7

Foreign capital is, on the contrary, mainly used for producing large investment surpluses. It must therefore be judged in comparison with the total investment of similar domestic capital, that is to say capital invested in big industry, mining, plantations, banking, and big business. We find that 10 to 12 million Rs. is about half of the capital invested in the foregoing industries. (15) These are the major branches of the Indian economy in the sense that most of the capital formation condenses in

them.[1] *Foreign capital can therefore be said to share the control of the Indian economy with domestic capital on what is very nearly a fifty-fifty basis.*

A quantitive estimate of foreign capital's influence demands qualification. Other important factors come into play; action by the State, for example, which can aid or reduce foreign influence; relations between domestic and foreign capital; or again, the ratio of foreign capital to local capital within any particular industry. These are the factors which must be examined if we are to determine foreign capital's indirect influence on the Indian economy.

Foreign Capital's Indirect Control of the Indian Economy

During the colonial period, the action of the State was normally favourable to British capital (16) and, because of this, the latter's indirect control of the country's economy was much greater than its numerical value in the main branches of industry. Since Independence, State action has been favourable to domestic capital, although not to a very great extent. The powerful position of foreign capital in the country, its relationship with domestic capital, and the weak rate of national accumulation making foreign participation desirable, are the reasons why State action was forced to respect foreign influence.

As conditions have changed little in recent years, the table on page 60 showing the extent of foreign capital's indirect control remains on the whole true of the present situation. The changes that have taken place—notably in the electrical industries, petroleum and coal--will be examined below.

The table on page 60 gives some idea of foreign capital's influence through industrial management. Its influence is particularly strong in the *principal foreign-currency earning industries* (tea, jute and cotton) and in those which are *the main sources of modern power* in India (petroleum, coal, electricity).

However, these quotas do not fully represent the influence of foreign capital, for some enterprises which are in fact under foreign control do not figure in the list: enterprises which are maintained by both foreign and Indian capital, for example, where there is a majority of Indian capital dependent (through agreements) on foreign capital. This type of enterprise has multiplied since 1945. Another example is that of enterprises controlled by foreign capital but with Indians

[1] The surplus 'condenses' in these branches of activity in that a part of their profits comes from exploitation of minor branches of activity: agriculture, for example, is subsidiary in this way to trade.

in the majority on the boards of directors, although some of them ma be merely the mouthpiece of foreign interests.

DEGREE OF CONTROL BY FOREIGN CAPITAL (17)

	Per cent of contr by foreign capit (in 1951)
1. *Industries in which more than 50 per cent of capital is under foreign control*	
Petroleum	97
Rubber factories	93
Light railways	90
Matches	90
Jute	89
Tea	86
Coal	62
Other mines	73
Plantations and distribution of rubber	54
2. *Industries in which less than 50 per cent and more than 25 per cent of capital is under foreign control*	
Banks and financial institutions	46
Electrical industries	43
Engineering industries	33
Coffee plantations	37
Food industry	32
Paper and cardboard	28
3. *Industries in which less than 25 per cent of capital is under foreign control*	
Sugar	24
Cotton	21
Cement	5

Foreign capital also has a strong influence on financial, banking, and commercial operations, and exerts its influence through managing agencies.

In 1947, the action of Indian Banks in vital economic operations was still small, and it did not increase to any great extent in the years immediately following Independence. In 1952, the Indian join-stock banks, with reserves of more than 500,000 Rs. as well as deposits, furnished only about 55 per cent of loans and advances (including discounts) against 24 per cent by the exchange banks and 21 per cent by the Imperial Bank.

Indian exchange banks took part in only 18 per cent of sterling exchange transactions and in 28 per cent of dollar transactions, against 82 per cent and 72 per cent respectively in the case of the foreign exchange banks.

In practice, then, the foreign exchange banks control about four-fifths of India's foreign trade. The Indian economy loses large sums in commissions, brokerage, insurance costs, etc.; and these losses are extremely detrimental as they mean currency losses. Indian capitalists also complain of discrimination practised by the exchange banks who favour foreign rather than Indian commercial enterprises. Indian commercial enterprises do not seem to carry more than 20 per cent of the export trade. It also appears that the foreign exchange banks require their clients to insure merchandise with insurance companies of their own countries.

The foreign banks' influence is increased by the fact that industrial capital is nearly always in the power of the banks and has to obtain credit on a large scale.

Thus, in 1949, bank loans to the cotton and jute industries totalled as much as 60 per cent of the paid-up capital of those companies receiving loans.

Since Independence, Indian banking capital has been gaining ground on foreign banking capital. This results from the increase of deposits, and legislative measures excluding foreign capital from some important positions. We shall examine these changes below.

Lending and commercial capital is known to exercise a decisive influence on the agricultural situation. But what is generally overlooked is the fact that foreign capital also has some control over agricultural activities, and in particular over agricultural market produce. The local buyer of agricultural produce, the *mahajan*, depends on a wholesale agent and consequently on a commercial firm or an export firm (often foreign-owned). It is these firms which grant loans to the agent and through him to the *mahajan*. They impose the price they are willing to pay. Since foreign capital is at the top of the pyramid (which may consist of many more intermediaries than in our example) it is foreign capital which dictates the conditions governing the returns from a part of the Indian peasantry's harvest.[1]

[1] This mechanism was described in 1929 before a Commission of Enquiry. There is every reason to believe that the situation is still the same. (See the results of the *R.C.S.*, and *The Bihar and Orissa Provincial Banking Committee*, 1929–30, vol. I, p. 60 and vol. II, pp. 165–6.)

It is evident that foreign capital's influence on the Indian economy is exercised in many different ways: both by direct control in certain sectors of the economy and, related to this, by indirect influence on other sectors. In Part Two, we shall see that on the whole foreign capital had lost little ground during recent years, although the sort of control it exercises and its means of doing so have certainly changed, sometimes considerably. The various difficulties which retard industrialization and which are caused by the presence of foreign capital and its actions have not been satisfactorily overcome.

An all-Indian government (with fairly effective means of financial control), determined to accelerate economic development, has given new opportunities to the Indian bourgeoisie and to the big bourgeoisie in particular. We shall now analyse the position of Indian big capital in India's capitalist sector.

3. THE ORIGINS AND RISE OF INDIAN BIG CAPITAL

It is impossible to understand the present position of Indian big capital without taking a brief glance at its origins and the conditions in which it has developed. Past and present are too closely related for us to examine one without the other.

Indian capital quickly reached a high degree of concentration, because only those who possessed large financial resources at the start could exist when faced with competition from foreign capital and with the feudal or semi-feudal social and economic structure of rural India. Feudal relations reduced internal market expansion of industrial products to a minimum, the market being in any case supplied by imports from Britain.

This explains why there was little expansion of industrial capital formation, and why there was immense expansion of lending and commercial capital. The latter type of capital flows back into industry only when the leading capitalists are strong enough to gain monopolies, and thus make high industrial profits as quickly as in the traditional fields of investment.

Very often the richest elements of the bourgeoisie, who tend to invest more and more in industry, continue their previous investment activities either personally or by means of intermediaries. This is how those who represent lending and commercial capital become representatives of industrial capital, and the process can be seen in the case of the Tata, Birla, Jain and other industrial groups.

Industrial capital developed late in India, at a time when world capitalism was already at the monopolistic stage. There was naturally a tendency for Indian industrial capital to take monopolistic forms. The managing agencies which British big capital used to exploit colonial India were also used by Indian big capital as a method of combating foreign capital. The caste or community of capitalists moving towards industrial activities (18) used either this institution or the internal credit system. They could hardly avoid doing so, since for a long time an isolated Indian enterprise could not get banking support because the big banks were controlled by foreign capital, which wanted to discourage Indian capital formation, or by Indian big capital, which did not treat possible competitors kindly.

Joint-stock companies were soon used to gather sufficient capital for the creation of big industrial enterprises powerful enough to compete with foreign firms. But until the first world war, and even for some time after, the shares were held by small groups. The merchants who provided raw materials for the new industries or those who sold the products were often asked to collaborate. Later, some of the shares were sold on the Stock Exchange (control of the enterprises being kept by means of the managing agency) and the founder's profits obtained were reinvested in the building-up of new enterprises.

This explains why members of a small number of castes or communities hold the important positions in the Indian industrial sector.

The traditional character of the Indian handicraft classes (whose members all belong to 'servant' castes) may also have hindered autonomous industrial capital formation in small industry. Apart from this, small enterprises found great difficulty in obtaining loans from a banking system dominated by commercial or foreign capital. But the importance of these two factors must not be overestimated. Experience has shown that in an expanding economy, even in India, there is always an expansion of the autonomous industrial sector. Once again the fault lies with India's stationary economy which, together with the conditions described above, allows financial capital to dominate industrial capital. Naturally enough, once this state of affairs has developed, financial capital will be unwilling to relax its hold on the economy.

4. THE POSITIONS OCCUPIED BY INDIAN BIG CAPITAL

The strong position of capital in Indian industries can be seen from statistics relative to the concentration of employment, capital, and industrial production in large enterprises.

In 1947, 90·7 per cent of workers in the textile industry (i.e. 908,000 out of a little more than a million) were working in 325 factories (about one third of all textile factories) each employing at least 1,000 workers. In the engineering industries, 49 per cent of the workers (more than 160,000) were employed in 58 factories of the above-mentioned size, which was 3·4 per cent of the total number. In the mining industries, 62 per cent of the workers were employed in 8 factories (2·8 per cent of all mining establishments. According to the 1947 industrial census, 7 per cent of the factories (those employing more than 1,000 workers) grouped more than 67 per cent of the workers. Only factories employing at least 20 workers were included in the census, which makes the above figures even more remarkable.

From the point of view of productive capital, it is interesting to note that of the factories which returned questionnaires, those with a capital of more than 5 million Rs. represented only 4·1 per cent of all factories concerned (i.e. 206 out of 4,880) but produced 43·4 per cent of the total output.

A. Roy, from whose book we have taken these figures, observes that industrial concentration in India reaches a much higher degree than in industrially developed countries.

Indian capital is mainly invested in big industry working for the domestic market, whereas foreign capital prefers big industry producing for the export trade or for allied activities. Indian capital has succeeded in penetrating to some extent into the export trade, especially where cotton goods are concerned.

It follows that industry controlled by foreign capital is situated mainly in the ports and along railway lines leading towards the coast. At first, there was a similar concentration of industry controlled by Indian capital. Bombay, for example, contained mainly the latter type of industry; Calcutta, the former. A few industrial centres have appeared, which, controlled by Indian capital and sometimes by one big enterprise, are not really geared to external market production.

Foreign capital has only a minor share in enterprises of Department I of the economy (those making means of production) and therefore

leaves Indian industry dependent on imported machinery and equipment. The domestic industry is not capable of supplying all new machinery and equipment needed, nor of increasing output in this field by its own means. Also, the amount of Indian big capital invested in this type of industry is totally insufficient.

This industrial concentration is the material basis of an even greater economic and financial concentration, monopolistic in character. The latter should be analysed firstly by branch of industry and secondly by financial and industrial group. The two types of analysis do not have the same scope, because one financial group usually controls more than one type of industry and conversely, many financial groups often have a share in the control of one particular industry.

Economic and Financial Concentration in Some Branches of Industry

In the metallurgical industry, four big firms were the major producers in 1949, but the industry as a whole was dominated by the Tata group represented by the Tata Iron and Steel Co. (T.I.S.C.O.). This company's output was at the time 76·9 per cent of total production capacity (estimated at 1·6 million tons), against 16·2 per cent for the Steel Corporation of Bengal and 1·6 per cent and 1·5 per cent respectively for the Mysore Iron and Steel Works and the Ishapore Ordnance Factory. The rest of the output was distributed among a fairly large number of small enterprises.

The T.I.S.C.O. is related to other companies of the Tata group, in particular to the Tata Locomotives and Engineering Co. (T.E.L.C.O., see below), the Indian Tube Co., the Tinplate Co., etc. All the capital of the coal-mining company West Bokaro Ltd. belongs to T.I.S.C.O.

Despite the concentration of the metallurgical industry, its total output is extremely small for a country as large as India; less than 10 lbs. per inhabitant. At the same period, the United States was using more than 100 times as much, Great Britain more than 50 times as much. Nor must it be forgotten that India has large resources; the cost price of steel produced in India is considerably lower than that of imported steel.

Indian capitalism's difficulty in producing even this amount of steel is characteristic of the effects of imperialism on colonial industrialization. The 'Iron Belt' with its rich deposits was discovered towards 1870 by the great Indian geologist P. N. Bose, working for the Indian Geological Service. Its possibilities were examined over 50 years ago in a report by the American steel specialist G. P. Perrin, which he made for the Tata

group: but only after Bose, who had been forbidden by the British to reveal his discovery, had retired from the I.G.S. and had thus been able to inform Tata. Even so, many decades passed before enough capital could be gathered to finance the first modern steelworks in India.

In the electrical industries, installed productive capacity in 1950–1 was 2·3 million kw. Three-quarters of this lay in the private sector.

The private sector is highly concentrated: five companies provide more than 75 per cent of the current and of the five, two dominate the group. One (the Calcutta Electrical Supply Co.) is controlled by British capital, and the other belongs to the Tata group.

The two industrial centres Bombay and Calcutta are entirely dependent upon the above two companies. Once again, the power of the two companies rests on a small section of the community: in 1950, consumption of electricity per inhabitant was 1·3 kwh., 170 times less than in the U.S.A., 85 times less than in the U.K.

In the cement industry, there is an even greater concentration than in the electrical industries. One group, the Associated Cement Co. Ltd. (A.C.C.), an amalgamation of four companies, produced about 64 per cent of the total output which, in 1952, was 3,200,000 tons. About ten factories in various parts of the country belong to the company.

The second great producer, much less important than the first, is the Dalmia group, producing about 14 per cent of the total output.

The most important processing industry in terms of value of production is the cotton industry. It is slightly less heavily concentrated than the preceding industries. In 1946, 24 companies owned 24 per cent of the spindles and 21 per cent of the looms. The 24 companies controlled 65 factories (out of 421 in all) and were managed by 12 groups, the most important being four controlled by Tata and two by Birla. (19)

Apart from this, the managing agencies that controlled the different factories were interrelated (often by family ties), especially in the great textile centre of Ahmedabad. M. M. Mehta has shown that at the beginning of the second world war Ahmedabad contained 18 big industrial families who controlled 57 of its factories, which is to say 80 per cent. (20)

The monopolistic position of big industrialists in the cotton industry is reinforced by their hold on the Cotton Producers' Associations. The two main Associations are those of Bombay and Ahmedabad. Each Association groups almost all the factories in its region and is more of a cartel than an association. (21)

The cotton industry, unlike steel, electricity, or cement, is one of the largest in the world. In 1949–50, it produced 3·5 thousand million metres of cloth and about one thousand million pounds of cotton yarn. It comes third in world production figures after the American and the Soviet industries, and well ahead of the British. Output per inhabitant is none the less small, and monopolistic practices, favoured by the small domestic market and its slow rate of expansion, have been an important factor in the stationary level of production after the war. We shall see in Part Two that production rose after 1951–2.

Excess monopolistic profits were made possible by low cost prices and by the system of handicraft production whereby millions of weavers earn very little because of their low productivity.[1] The practice of setting a sale price which is considerably higher than the cost price is accepted because it allows the small enterprises and their workers to survive, but it also gives excess profits to the bigger enterprises. The latter's profits are at least five times as high as those of the small enterprises. (22)

Here, then, is a brief survey of economic and financial concentration in some branches of industry. The phenomenon is not limited to these branches, and may be even more striking in the little-developed branches where the total output is shared between three or four large producers.

It is hardly necessary to insist on the consequences of such concentration and of the accompanying monopolistic practices. They are well known: appearance of monopolistic profits, fall of net income in rival sectors and in agriculture, low buying price of raw materials when these themselves are not in monopoly (as in the case of agriculturists), a tendency to slow down development of the production system and even to use only part of the existing system in order to maintain high prices. These consequences are highly detrimental to a country as economically underdeveloped as India.

[1] According to the *F.R.N.I.C.* (p. 71), the net income per worker in the textile industry was one of the lowest for small industries: about 550 Rs. a year in 1950–1. This is a result of low physical productivity, competition from factories (the result of which is that most weavers can only work part time for lack of markets), and bad yarn supplies. (The textile factories tend to keep yarn for their own use.) Hand and spinning-wheel production continues. Gandhi favoured these activities but the cost price of the thread thus obtained—even if the producers live in the most frugal manner—and its bad quality led weavers to prefer factory-spun yarn. Steps have been taken to give weavers a set quota of factory yarn. Also, a new spinning-wheel has been devised (the *Ambar Charkha*) but it is not economical.

Indian Capital's Dispersal and the Formation of Financial Groups

Big capital often shows a tendency to disperse once financial capital has formed, but the process differs according to conditions in the country concerned.

In India, this tendency was accelerated by the colonial and then semi-colonial nature of the economy, by the strong feudal or semi-feudal relationships in the country, and by a basic structure in which productive forces were little developed. The domestic market's slow rate of expansion incited big capital to diversify its investments rather than develop some priority branches at high pressure, which would have led to their being developed much too quickly for its liking. A few examples will show how the tendency for big capital to disperse can be seen in action.

Let us take first the Tata group, which is *the largest of the Indian financial groups*. It manages the Central Bank of India and controls dozens of industrial and commercial companies.

We have seen that T.I.S.C.O. is part of the Tata group and that the latter controls other factories, railways, and power stations, from which Bombay and its region as well as many others draw their supplies.

The Tata group also controls big chemical factories (Tata Chemicals and Tata Oil Mills), cement factories, engineering works, food-producing firms, hotels, etc. Just after the second world war, it was estimated that the Tata group controlled a capital of 850 million Rs. in the industrial sector alone; this was only part of the group's capital, which has been growing in strength since that date.

One can gain some idea of the power of such a group by bearing in mind that the industrial town of Jamshedpore, created by Tata to serve T.I.S.C.O., has 250,000 inhabitants all relying directly or indirectly upon T.I.S.C.O.

At present, Jehangir R. D. Tata is the president of Tata Industries (the managing agency of the Tata group) and director of all the companies managed by Tata or in association with it.

The Tata group, unlike most other Indian financial groups, has on the whole quite a limited rôle in the commercial field. This is a principle which has been respected since the 1920s, when the group lost heavily in commercial affairs.

According to R. K. Hazri, the Tata group controls more than 100 companies. About 50 of them are managed by Tata alone, and their total assets reach 2·9 thousand million Rs. Assets of companies partly controlled by Tata total nearly one thousand million Rs.

The Birla group is also one of the most powerful in India. Its managing directors are the Birla brothers. At the end of the second world war, the Birla group managed 89 joint stock companies and one of the Indian big banks, the United Commerical Bank. By means of this bank the group exerts a controlling influence upon several dozen other companies and insurance companies. It controls a large number of textile factories (in Calcutta, Delhi, Gwalior, Bhavani, etc.) and jute factories, coal mines, sugar refineries, engineering factories, automobile and bicycle factories, chemical plants, electrical equipment factories, pottery and porcelain factories. It also manages some important commercial firms, particularly some engaged in foreign trade.

The textile companies appear to have the largest amount of paid-up capital (217 million Rs.). Then come the engineering industries (116 million Rs.), the investment companies (64 million Rs.), the paper and printing industries (59 million Rs.), banks and insurance companies (26 million Rs.), and commercial firms (22 million Rs.), etc.

It should be borne in mind that some of the above industries do not in fact produce and sell goods, but are merely financial or investment companies. This means that the Birla group is much more of a financial concern than would appear from the preceding analysis.

The Birla group also controls the following newspapers and journals: *The Hindustani Times* (Delhi); *Searchlight* (Patna); *The Eastern Economist* (a Delhi weekly); *The Leader* (Allahabad); *Ravastrani* (in Hindi).

A third group of considerable influence is the Singhania group, with interests mainly concentrated in the Jaggilal Kamlapat Managing Agency.

The Dalmia Jain group was another powerful consortium at the time of Independence. It controlled the Bharat Bank (the second largest in India), and had relations with other banks and powerful insurance companies (notably the Bharat Fire and General Insurance).

It also managed the second largest cement trust in the country, many coal mines (Bharat Collieries and others), six of the most important sugar refineries, two very large cotton factories and two wool factories, two big chemical factories and many others. It was at the head of particularly important press concerns: *The Times of India*, *The Illustrated Weekly of India*, *The Evening News of India*, etc. (24)

The Dalmia group, like the Tata, has created industrial towns entirely

dependent on its products and named after members of Seth Ramakrishna Dalmia's family: Dalmianagar (Bihar), Dalmiaputram (South India), Dalmiadadri (P.E.P.S.U.) and Shantinagar (now in Pakistan). It also has a remarkably wide geographical range.

Three other groups should be included in our survey: the Mafatlal, the Walchand, and the Mahindra; each has assets in the range of 150 to 200 million Rs.

These are the financial groups which have the greatest influence in the Indian capitalist sector. Other groups exist—Goenka, Gupta, Mody, Poddar, Jaipuria, etc.—but are less important.

There are many links among the different groups (particularly through employers' organizations and banks) so that the concentration of interests is even greater than the above details would suggest. (24)

Indian Capitalist Organizations

The opposition between Indian capital and foreign capital is clearly illustrated by the existence of separate organizations for each. This is not always the case; common organizations do exist, in particular industrial associations such as the Millowners' Association.

The Indian capitalist organizations are highly complex in structure, and we shall not go into too much detail in the following descriptions.

Professional organizations in the commercial field are the oldest existing type. The first modern professional organizations were founded by the British at the beginning of the nineteenth century. Only in the last quarter of the nineteenth century did the Indian capitalists begin to found their own organizations. With the development of Indian industry, commercial organizations began to take an interest in the industries related to their sphere of action.

After 1920, many Indian industrialists came into association. The Delhi Factory Owners' Association was founded in 1922, the Indian Mining Federation, the Indian Colliery Owners' Association and the Indian National Steamship Owners' Association in 1930, the Indian Sugar Mills' Association in 1933, the Indian Soap Makers' Association in 1934, and so on.

Representatives of big capital naturally took the lead within these associations. A representative of the Tata soap works, for example, was elected president of the newly-founded Soap Makers' Association, and this was the general pattern in all the main professional associations. Big capital thus acquired a far more extensive influence than before.

Most of the associations aim to develop and put into action common industrial and political policies; they are not limited to informing and representing their members. Their work covers questions of sale and cost price, price levelling, wage policies, mass buying of certain products, and even agreements on limiting production. In other words, these associations reinforce big capital's monopolistic practices and allow capitalists in the various industries to take common action against suppliers, clients, and employees.

As trade union movements among the workers gathered strength, industrialists were more inclined to form separate organizations which took care of trade union, social and wage questions, and which defended employers' interests when Parliament discussed social legislation. They are grouped into two federations: the Employers' Federation of India and the All-India Organization of Industrial Employers.

Parallel to the employers' associations are the closely related Chambers of Commerce. Since 1920, the Indian Chambers of Commerce have been grouped into one Federation of Indian Chambers of Commerce and Industry which today is the mouthpiece of Indian capitalism and of the big capitalists in particular.[1] The Birla brothers, Sir Padampat Singhania, K. P. Goenka and most of the biggest capitalists are on its Board of Directors.

The Federation is recognized as expressing the top industrial and commercial interests and is represented in this capacity on many official commissions: on the Planning Commission Advisory Board, the Export Advisory Council, the Import Advisory Council, the Central Advisory Council of Industries, etc. The Federation has the same standing as the All-India Organization of Industrial Employers, and the organizations work in close collaboration.

There also exists a powerful central organization of a purely industrial character, the All-India Manufacturers' Organization, which acts as a liaison between industrial capital and the Government. It seeks to promote unity of action among its members, influence public opinion by its publications, and uphold the interests of its members in the economic field. It also is represented on many official committees, and here again many of the most powerful of Indian industrialists have seats on the Board.

It is interesting to note that these organizations break the caste

[1] Together with this association is the Associated Chambers of Commerce of India, which represents the British capitalists in India.

barriers, at least on an economic front. Class solidarity replaces the former community solidarity.

These, then, are the organizations through which big capitalists in India exert social, economic, and political influence, and which reinforce the power they already possess through the industries which they control. Their influence is again strengthened by the fusion of commercial and industrial interests with interests in the banking world.

5. BANKS AND INSURANCE COMPANIES

It is hardly surprising that Indian big capital should be firmly entrenched in the banking world, considering that its origins lie in the lending and commercial spheres.

In 1949, there were 585 joint stock banks in India, with reserves of more than 461 million Rs. and deposits of 8,296 million Rs. These banks and the whole banking system are dominated by a group of seven banks holding 68 per cent of total deposits. It is a remarkable fact that in 1949, of the total deposits made with 11 of the biggest Indian banks and 15 of the foreign exchange banks, 78 per cent were held by the Indian banks.

The names which are quoted above are to be found at the head of these Indian banks. The Central Bank of India is mainly under the influence of the Tata group, but a representative of the Mody group and one of the A.C.C. are also represented on the board of directors. Tata and A.C.C. are also represented on the management of the Bank of India. The Dalmia-Jain group controls the Punjab National Bank, while the Birla group controls the United Commercial Bank and collaborates with Tata on the board of the Bank of Baroda. These five banks held deposits of nearly 3·3 thousand million Rs. in 1948–9.

Since then, these big banks have increased their power both by expanding their business and by absorbing small banks.

6. INCREASING FINANCIAL AND COMMERCIAL OVERGROWTH

The capital held by the most powerful groups is accumulated mostly in a form which ensures that it is tied up for only a relatively short time: this is the cause of increasing financial and commercial overgrowth. This also explains how capital accumulated by banks and insurance companies is related to enterprises in the production field: the relations are

in particular those of short-term loans rather than of long-term lending or financial participation.

This type of dependence is highly unfavourable to industrial development, as much because of the instability of the industries' financial resources as because of the expense incurred.

One consequence of these expenses is that the surplus created by the workers is to a large extent transferred outside the industry, with the result that internal accumulation in the industrial sector is slowed down considerably.

India's financial overgrowth is linked to the colonial (and later semi-colonial) nature of the economy and to the predominance of a semi-feudal system in the villages. Financial overgrowth due to such structures can be traced to a number of factors.

Those with the most direct influence are the limited size of the domestic market and the slow rate of its expansion, both of which are related to the poverty of the peasant masses and the tendency for their plight to grow worse. This creates unfavourable conditions for industrial development and capital formation. It also tends to send newly formed capital back into unproductive spheres. Such a movement is facilitated, and its specific forms determined, by the existence of monopolistic industrial groups of commercial or moneylending origin, which play a decisive rôle in industry, commerce, banking and insurance.

It is interesting to note that the factors giving commercial and financial activity an advantage over industrial activity and causing non-productive capital formation can be detected at all levels, even within the enterprises which are not directly controlled by financial capital. *The predominance of non-productive over productive capital formation* is greater than statistics suggest.

Various secondary factors, partially related to India's economic and social structure, also tend to hasten overgrowth, and to magnify the structural faults mentioned above.

One of these secondary factors is the extreme instability of agricultural prices, which favours commercial speculation. This instability is obviously linked to the peasantry's low standard of living and to the irregular harvests, but it is accentuated by the lack of a political system of price stabilization which could be created by State intervention in the market for the main agricultural products.

To see that there are big fluctuations in agricultural prices, one has only to examine the movements in a year when the general price level

was relatively stable. (Otherwise the fluctuations would be partially hidden by a general price rise such as took place in India in 1948–9 when price control was lifted after the war, and in 1950 after the Korean war. Or again, they may be hidden by a general fall in prices such as that after the boom at the end of the Korean war.)

The year between October-November 1952 and October-November 1953 perfectly illustrates the fluctuations in Indian agricultural prices against a background of general price stability. During this year, the variations in the *average monthly price* of rice, raw cotton, raw jute and ground-nuts were so great that the difference between the minimum *average price* and the maximum *average price*, was, respectively, 12·3 per cent, 17·3 per cent, 20 per cent, and 51 per cent, and this mainly over a period of six months.[1] It is easy to understand that it would be much more tempting to invest one's capital in this field—which offers profits varying between 12 per cent and 50 per cent over a few months—than to invest productively.

Speculation on shares and on gold also offer much greater profits than do most productive investments.

Inevitably, there is a temptation to keep capital either in the form of easily disposable merchandise or in its most liquid form so that it may be instantly invested where the greatest profit seems likely. This causes a relative paralysis of commercial and financial capital and makes the odd structure of many company assets appear less surprising.

Most lending capital operations in rural India are also highly detrimental to productive capital accumulation. Their effect has generally been underestimated.

There is a tendency to think of urban capital and rural capital as two different provinces, separated by a sort of Chinese wall. The bad effect of rural lending operations on productive forces is explained first of all by the increase of poverty among the peasant masses due to high interest rates, and secondly by the resulting attraction of *rural* capital towards usury rather than production. This is a fair analysis but it is also incomplete; it omits the fact that rural money-lending operations also cause a drain on *urban* capital formation.

The loss to urban capital is really underestimated because it takes place in a series of intermediate stages, and this makes exact calculation difficult. But there are many indications that urban financial capital and

[1] In fact, the actual difference between maximum and minimum prices was often much larger than between the monthly averages.

rural moneylending capital are far less different than it would seem at first glance.

Agricultural loans by the commercial banks (whether controlled by monopoly capital or not) are certainly exceptional and relatively unimportant. These banks have little part in agricultural credit operations by reason of their structure, their geographical positions, the sort of operations which their resources permit (commercial rather than production investment) and the sort of security they demand. Moneylenders are the source of more than 85 per cent of loans to agriculturists: nearly 45 per cent of this comes from professional moneylenders (nearly always rural), 25 per cent from agriculturist lenders or other rural lenders, if we are to believe the R.C.S.'s report.

Investment in moneylending seems dominated by rural operators, leaving little room for urban capital. This is true of districts where there is little market production and little or no commercialization of produce. It is not true of the districts where credit facilities from the urban sector are available (at least indirectly) to the various rural moneylenders and particularly to those who are also merchants.

The latter can use funds provided by the urban sectors (and bank loans in particular) because they are in touch with the urban sector through their business dealings. Even if their trade is too small for them to obtain bank credit easily, their position and business relations with the biggest commercial firms or industrial enterprises (the latter, as we have noted, take great interest in financial affairs) allow them to obtain urban funds to finance their lending operations. In some districts where there is a good deal of commercial production, rural lending depends very heavily on urban funds. In the regions of Malabar, Quilon and Nizambad, the proportion of credit ultimately coming from urban sources is, respectively, 57 per cent, 29 per cent, and 22 per cent of the total debts. In many other districts, the proportion varied between 10 per cent and 20 per cent at the time of the R.C.S. enquiry.

Few of the professional moneylenders are restricted to usury alone. In fact, 38 per cent of professional rural moneylenders and 78 per cent of urban moneylenders are merchants, tradesmen, commission agents, etc., and therefore are able to call upon urban capital. The *R.C.S.* admits that:

> 'It is not ordinarily practicable for the indigenous banker to establish direct business relations with the ryot. He finances agriculture

through local *sahukars* or moneylenders. . . . In Bihar and Orissa, the indigenous banker lends to grain merchants and *goladars* and advances directly to zamindars and ryots who have an easy access to towns. In all provinces, he also indirectly finances agriculture by financing internal trade. . . .'[1]

The interrelation between monopoly or financial capital and lending capital has often been questioned on the ground that the interest rates on the two sorts of capital are very different. (25) The relationship is certainly complex and the methods of action differ in each case, but it should be evident that the different interest rates are the essential link between the two spheres and do not prove that they are distinct.

The complexity of their relationship stems from the fact that a professional village or small-town moneylender borrows from the organized banking sector only in exceptional conditions. He increases his capital mainly by profit from interest but sometimes by trading operations. Otherwise, the village moneylender may call on the local, indigenous, bankers, who, in turn, call upon urban capital. A report on banking problems states:

> '. . . commercial banks . . . occupy a significant place in the financial superstructure that is available to the village moneylender, the urban moneylender, the indigenous banker and the trader in agricultural produce.'[2]

This analysis illustrates the ways in which a link can be established between urban lending capital and rural lending capital.

In such conditions, there may be one, two, or three intermediaries between the rural moneylender and the banking system. Bank loans can make this slow progress towards the rural sector only because at each step there is a high enough difference between the interest rate paid by the borrower and the rate which he in turn lends.

Highly unstable conditions and lack of research make it difficult to say exactly what the difference is between the successive rates of interest. It would seem that the difference is usually considerable. We know, for example, that bank loans and advances carry 3 to 4 per cent interest rates, whereas average commercial rates on bazaar bills lie between 9 per cent

[1] *R.C.S.*, vol. II, G.R., pp. 176–80.

[2] The Indian Central Banking Enquiry Committee, 1931, Majority report, p. 99.

and 14 per cent. A succession of lending operations can easily bridge the gap between the bank and the commercial rates. The only essential condition is that the inactive loans are made at a rate low enough to give a good margin of profit for each intermediate operation.

There are also particular conditions governing each of the intermediate operations, which make it difficult to break the circuit. The commercial banks have often tried to make direct contact with the agriculturists, but with little success.

It is not only the type of resources held by each category of operator which differs (that is to say, what percentage of liquid assets is held, how far each operator is self-sufficient, how quick the turnover is at each stage). It is also a question of what securities are demanded and accorded at each point of the circuit. It becomes almost impossible to break the circuit without completely changing its structure.

To give an extreme example, there is a fundamental difference between real securities (that is to say, capital in a fairly liquid form), which are the bases of bank credit, and the *personal* securities (often all that can be offered) which the moneylenders demand. The moneylender has no other security than his client's 'character and capacity to repay' (in the words of the *R.C.S.*). Because he has the means of exercising pressure on the borrower, the rural moneylender does not have to worry about what will be done with the loan, which may be used to finance *either production or consumption*. He may not even demand any tangible guarantee of repayment.

The R.C.S. report underlines the fact that rural moneylenders count on automatic compulsion to repay debts, but: 'If need be, of course, he is prepared to exert himself and set in motion the forces of compulsion. Those forces are social or economic or both. They are different for different debtors, but are in each case related to how the debtor is circumstanced in the village. The social compulsion is connected with considerations such as loss of "face" or local prestige, caste disapproval, possible pressure through the caste *panchayat*, and a variety of other social sanctions which, because they happen to be intangible, are not on that account any the less powerful. There are also a number of ways of economic compulsion. One form of pressure is that which the moneylender can himself exert by threatening to withhold future credit. Another is that which it may be possible to apply through some other creditor, especially the trader from whom the cultivator may have taken an advance. . . . Since moneylender, trader and landlord—not to mention

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village headman and village accountant—are not without their code of mutual obligations in the village . . .,'[1] the recalcitrant debtor runs a serious risk. If, for example, he rents land, he may be threatened with eviction.

The farther one goes from the towns, the more 'personal' is the credit system and the more difficult it becomes for the banks to take any direct action in the field of credit. The internal development of rural India is having very little (if any) effect on the system by means of more produce grown for market consumption and bigger farms giving a basis in terms of land and capital on which to obtain credit.

These are the factors keeping the different forms of lending capital separate; they are at the same time the causes of their interdependence, resulting in the drain of urban capital towards the villages.

The exact amount of drainage cannot be given for lack of statistics, but it is certainly large. The difference between urban and rural interest rates causes a strong flow of urban capital towards the villages, and in years when the harvest is bad the current is quickened by the peasants' rapidly increasing debts. Unfortunately, rural productive accumulation is not in general increased by the new capital, which is mainly used for covering deficits and for consumption expenses. It merely increases the weight of debts.

One particularly important result of the connection between urban and rural lending capital is that urban capital tends to keep to a very liquid form and is unfavourable to productive accumulation, which depends on long-term tying up of capital.

From a political and social point of view, the connection creates a long chain of interests which unite big monopoly and financial capital with rural moneylending capital. Their solidarity is one of the reasons why the different measures designed to reduce the peasantry's dependence on moneylending capital have had little effect until very recently. The most moderate of such reforms—notably the extension of co-operative agricultural credit based on the credit of the State Bank of India—have met with little success.

In any case, it is certain that the complex relationship between big banking capital and rural merchant or moneylending capital is one of the reasons which explain the overgrowth in the financial and commercial sphere. It is certainly related to the other main causes, which are poverty among the peasantry and unstable agricultural prices. The

[1] *R.C.S.*, vol. II, G.R., pp. 176–80.

overgrowth favours unproductive capital formation, thus slowing down economic progress.

These phenomena are the cause of a constant drain on newly formed capital, taking a part of industrial capital into financial and commercial operations and even into the rural sector. In the villages, the capital is used mainly for non-productive purposes. Thus, from the point of view of the national economy, lending capital does not add to real capital formation but is a mere accumulation of debts—a transformation of capital into income.[1]

The movement of industrial capital towards non-industrial activities and from the more to the less developed regions (a movement which generally does not contribute to development) both result from the economic and social structure of the country. The causes are the monopolistic domination of industry and the weak domestic market due to semi-feudal conditions in the villages, high interest rates in the country, etc. As we shall see in Part Two, State intervention in economic affairs has given rise to new hopes for industrial capital formation. The relatively fast growth of private industrial investment during recent years has been possible precisely because of the volume which Indian big capital's operations reached long ago.

NOTES TO CHAPTER IV

(1) This is, of course, only an approximation. It has been calculated from budgetary statistics and from information in N. Kaldor's *Indian Tax Reform*.

(2) See in particular *N.S.S.-10*, p. 24.

(3) This figure has been calculated from budgetary statistics and from N. Kaldor's estimates of tax evasion (cf. *op. cit.* pp. 104 and 105). The estimate includes all capitalist income which is legally a salary.

(4) *Ibid.* p. 133.

(5) *S.I.F.* 1955.

(6) Under this heading come all shares which do not give control over the total capital or assets of the company which issues them. They are mainly preferential shares which do not carry voting rights, debentures,

[1] This is true in so far as borrowed capital is used by the borrower to provide income for landlords, previous lenders, etc.

and ordinary shares held by outsiders but not in numbers large enough to give controlling rights (*v. S.I.F.* 1955, pp. 11 and 19).

(7) The first of the two figures on this line shows the net sum of investments made in India by these firms and companies; this net total is calculated by finding the difference between the companies' assets in India and their liabilities. If the difference is positive, the surplus corresponds to the net foreign investment; if the difference is negative, this means that the branches of foreign firms have a net excess of assets abroad, which does not diminish the control they have of their firms' assets in India (cf. *ibid.* pp. 20 and 22).

(8) The methods used here are those indicated in note 7. The considerable difference between foreign 'investments' and 'directly controlled capital functioning in India' is due to the sum of deposits made by foreign bankers with their branches and under the foreign bankers' direct control (*ibid.* p. 23).

(9) See notes 7 and 8 above. The negative balance of 'foreign investments' is caused by the fact that foreign insurance companies have placed part of their assets derived from insurance premiums paid by Indians with their branches abroad. It is evident that foreign capital operations can have a negative influence on domestic capital formation (*ibid.* p. 24).

(10) The second of the figures on this line shows the total value of the capital stock of the firms considered (213 joint stock companies). The first figure is the sum of the shares held abroad (*ibid.* p. 26). The total of capital directly controlled is obviously underestimated since only the total of *assets* is counted.

(11) The second figure on this line shows the total value of the capital stock of the firms considered (106 in all). The first figure is the sum of the shares held abroad (*ibid.* p. 28). Here again the total capital stock can be much less than the assets actually controlled.

(12) Managing agencies are an important feature of the non-agricultural capitalist sector of the Indian economy. Some of them were formed by foreign capital, some by Indian capital (in fact, the oldest go back to the time of the East India Company). These managing agencies control the companies they run by private agreements rather than by possession of company stock; on average, they hold only 15 per cent of any company's capital. The agreements are made on a twenty-year basis, with the possibility of renewal. In fact, the companies are almost entirely dependent on the agencies, and renewal is more or less automatic.

The first figure on this line shows the value of the shares held by the 36 foreign-run companies doing business in India at the time of the survey (*ibid.* p. 31). The second figure gives the total value of the shares held by the companies. Again, the capital directly controlled is underestimated because it is represented by the total of capital stock and not by the total of assets.

(13) The difference between this figure and the one also quoted by the *S.I.F.* 1955 (4,195 million Rs.) is due to a slight difference in the method of defining 'foreign' capital, with particular bearing on place of residence.

(14) According to Uma Datta and Vinod Prakash, India's reproductible wealth was 149·9 thousand million Rs. in 1949–50 (*v. P.N.I.*, p. 248).

(15) About 21·3 thousand million Rs. were tied up in the branches in question in 1949–50 (according to the sources quoted in Note 14).

In 1951, the productive capital of big industry, mines, electricity, and plantations was 14·06 thousand million Rs., of which 0·84 thousand million Rs. lay in the public sector (*v. The First Five Year Plan*).

According to the *P.N.I.* p. 248, the total sum of capital invested in these industries in 1949–50 was 18·5 thousand million Rs., 2·3 thousand million Rs. lying within the public sector.

(16) This capital still formed the main part of private foreign investment in 1953. At that date more than 82·6 per cent of the 4·3 thousand million Rs. of private foreign investment was British (against 85·2 in 1948, and 81 per cent in 1955) and 7·3 per cent was American (8·5 per cent in 1955).

(17) This table, taken from official sources, includes all companies registered in India with assets of 500,000 Rs. or more; that is, about 1,000 companies in India, and 93 registered outside the country but doing business in India. Companies registered outside the country, those controlled by foreign managing agencies, and those with a majority of foreigners on their boards have been considered as being controlled by foreign capital (*v.* A. Roy).

(18) Cf. J. Grache, 'A Short Outline of how big Industrial Capitalists arose in India' (in Russian) in *Utchonye Zapiski Instituta Vostokovedenija*, vol. x, 1954.

(19) Cf. M. M. Mehta, *The Combination Movement in Indian Industry*, Allahabad, 1952, pp. 11–13.

(20) M. M. Mehta, *The Structure of the Cotton-Mill Industry in India*,

p. 87, quoted by Levkovsky, *Some Peculiarities of the Development of Capitalism in India*, p. 267.

(21) M. M. Mehta, *The Structure of the Cotton-Mill Industry* . . ., pp. 84–5, quoted by Levkovsky, *Some Peculiarities* . . ., p. 266.

(22) This ratio of 5 to 1 is calculated on a basis of the dividends paid by the different sorts of enterprises. On the same lines is the following table taken from M. M. Mehta's study of 67 enterprises in Ahmedabad between 1929 and 1942.

No. of looms installed per group of enterprise	*Average Dividend 1929–42* (in per cent of the capital)
I. Less than 15,000	4·30
II. From 15,000 to 30,000	8·33
III. From 30,000 to 45,000	15·94
IV. From 45,000 to 60,000	27·45
V. More than 60,000	24·40

(M. M. Mehta, *The Structure of the Cotton-Mill Industry*, p. 161, quoted by Levkovsky, *op. cit.*, p. 267.)

(23) The Dalmia group also controls the *Indian News Chronicle*, the *New Bharat Times* (Hindi editions in Bombay and in Calcutta, Gujerati edition in Bombay), *Satyayug* (in Bengali, Calcutta), the *National Call*, the *Dharma Yug* (in Hindi).

(24) At the time when M. M. Mehta's study of the *Combination Movement in Indian Industry* was published, 9 financial groups controlled 600 big enterprises, and 20 directors of the four big Indian banks held 200 other directorships.

(25) The rates of interest on the money market are remarkably low for a country with India's level of economic development. In 1948–9, the current rate was $\frac{3}{4}$ per cent in Bombay and in Madras, and $\frac{1}{2}$ per cent in Calcutta. It has since risen steadily and is now between 2 and $3\frac{5}{8}$ per cent. The Reserve Bank of India's discount rate is usually 3 or $3\frac{1}{2}$ per cent. The interest rate on advances of the Imperial Bank and the State Bank is from 3 to 4 per cent. The interest paid on three-month fixed term deposits was $1\frac{1}{4}$ to $1\frac{5}{8}$ per cent in 1948–9, and rose steadily to $3\frac{25}{64}$ per cent in 1956 (*v. Reserve Bank of India Bulletin* and the *Monthly Abstract of Statistics*). In 1956–7 there was some tension over the bank rate, which rose above 4 per cent, reaching a maximum of $4\frac{13}{16}$ per cent. Bank agreements reached in 1958 halted the rise.

The interest rate on Indian Government Treasury Bonds was only

0·5 per cent in 1948 and, even after rising steadily, remains below 2·6 per cent. The dividend on property shares was between 2·8 and 3·8 per cent before 1948 for Government stock and, although naturally higher on variable income stocks, did not reach an average of 6 per cent.

There is a big difference between these rates and the rates of money-lending capital. According to the *R.C.S.*, agricultural loans in Bihar carried interest rates of 25 per cent or more at the time of the enquiry, loans in the Uttar Pradesh 29 per cent, in West Bengal and the Himachal Pradesh 40 per cent, in Tripura 49 per cent, and as much as 70 per cent in Orissa. Interest rates of more than 60 per cent were not rare, and in some districts applied to between 30 and 60 per cent of all loans. This means that the legislation which exists in practically all the States, fixing maximum interest rates varying between $5\frac{1}{2}$ and 24 per cent, is totally ignored. In West Bengal, Bihar, Orissa, Hyderabad and the State of Madras, about 85 per cent of all loans carry interest rates higher than the legal maximum. (Cf. *R.C.S.*, volume II, G.R., *op. cit.*, p. 174.)

V

THE PROLETARIAT AND THE PETTY BOURGEOISIE

THE strength of Indian big capital and the weakness of India's industrial sector at the time of Independence should not obscure the problems inherent in India's social structure. Here again it is evident that the country was in urgent need of industrialization; the cities were already large and growing, the concentration of manpower sometimes enormous. Another factor of vital importance was the size of India's proletariat and the situation facing a large part of the middle classes.

I. THE URBAN SECTOR OF INDIAN SOCIETY (1)

India's urban development has been affected by many conflicting forces which we cannot discuss in great detail.

First, there are the old cities which belong to India's pre-capitalist system. These towns have for centuries been the centres of political power. A large slice of the wealth produced by rural districts is absorbed by these cities in the form of rent and taxes. Their income is drawn from a part of the agricultural surplus resulting from the peasants' low consumption, and this surplus was for a long time used to enrich the princes or the administrators, subsidize their armies or police forces, and pay the innumerable servants and craftsmen who worked for them. These cities may have been centres of culture and civilization but their structure prevented them from giving any help to the villages in return for what they took. Under British rule, some of these ancient cities fell into decline. Among the reasons for their decline were the relative impoverishment of the rural districts, the growing number of intermediaries who each took a share of the rent and, above all, the centralization of much of the agricultural surplus. In some of these cities, the population has decreased. In others it has increased because it took an ever-increasing part in the production and trading associated with the rise of a commercial, capitalist economy.

The towns which have developed more quickly are those directly

affected by the new economy—Bombay and Calcutta, for example, and many other towns connected with the export trade, such as ports and road and rail junctions.

The statistics relative to India's urban population should be interpreted with these points in mind.

According to the first census after Independence the urban population had reached nearly 62 million people, greater than the whole population of France or the United Kingdom. But the figure is only 17·3 per cent of India's total population.

The biggest towns have a large share of the urban population: those containing more than 100,000 inhabitants house more than two-fifths of the urban population. Among them are cities with a population of more than a million; Bombay (2·8 million), Calcutta (2·6 million; or, if Howrah is counted as well, more than 3 million), Madras (1·4 million), and Hyderabad (more than one million). In much the same category are the cities of Delhi, with a population (New Delhi included) of more than one million, Ahmedabad and Bangalore.

Most of these big cities grew very rapidly between 1941 and 1951. Whereas the total population of India increased by less than 12 per cent during this period, that of towns with over 100,000 inhabitants increased by 36 per cent. Calcutta's population almost doubled and Bombay's grew by 168 per cent. Since Independence the growth has accelerated—above all in the big cities—giving rise to complex social and economic problems (increase of urban unemployment, worsening housing conditions etc.).

The rapid growth of the urban sector is due to its vitality, not to the growing pressure of the rural population on unequally distributed land. But we should neither overestimate the degree of Indian society's urbanization, nor exaggerate the influence of the cities on society and on the economy as a whole.

As the country is not highly industrialized, the modern economic activities typical of the urban sectors of industrialized countries are still underdeveloped, even in the big cities. (2)

The urban working force consists mainly of wage-earners (55 per cent in fact). (3) The second largest group contains those who work for their own profit, without employing hired labour (about 32 per cent). The employers (that is to say, the managers) constitute less than 1 per cent of the working population. (4)

These figures show that *the proletariat is relatively numerous in the*

Indian towns, since more than half of those who are economically active live by hiring out their working capacities. In the big cities, the percentage rises from more than 50 per cent to nearly 75 per cent. The size of the proletariat also indicates the concentration which is characteristic of India's economy. Two-thirds of the working class can be found in industry, mining, construction, transport and communications, and the gas and electrical industries. Despite the relative weakness of industrialization, it can be seen that India's urban proletariat is mainly an industrial group.

There are still many traces of the traditional economic and social structures in the towns; in fact, the towns do not necessarily contain all the workers who are connected with the development of a capitalist economy. We must therefore study these social groups independently of their geographical distribution.

2. INDUSTRIAL WAGE-EARNERS

According to the 1951 Census, there were 13,540,000 non-agricultural wage-earners in India, and more than 4,600,000 of them worked in industry. (5) The latter are therefore equivalent to 11·5 per cent of the total number of agricultural wage-earners. The 4,600,000 did not all work in *large-scale* industry; the figure also included those working in *small-scale* industry, including of course rural or traditional industries.

The 'industrial working class' is employed mainly in industrial establishments coming under the jurisdiction of the Indian Factories Act (6) as well as in the mines and ports, on the railways, and in other forms of modern transport. In 1950, there were nearly 3 million factory workers (7), more than 444,400 miners (8), about 1,200,000 municipal transport workers, and about 100,000 dockers and port employees.

The nucleus of the Indian industrial working class consists of about 4·5 million workers (9), or 16 to 20 million people if we include their families. This is quite a large group, especially as it is concentrated in a few States. The State of Bombay contains nearly 800,000 factory workers in a population of less than 36 million; West Bengal (pop. 24·9 million) has 650,000 factory workers, and Madras (pop. 57 million) has nearly 400,000. Within these States, as in the industrial areas of other States (Uttar Pradesh and Bihar in particular), the factory workers are heavily concentrated in a few towns or industrial zones which thus have a strongly proletarian character.

On the whole, the establishments in which these workers are employed have a relatively high degree of concentration: in 1950, the 3 million or so factory workers were employed by 31,761 establishments, which gives an *average factory employment* of 94 workers per establishment. (10)

Obviously this average figure does not fully represent industrial concentration. In West Bengal, for example, the jute factories employ 2,500 workers per factory on average, and the cotton factories 1,000. The figures are much the same in the cotton factories of Uttar Pradesh and the State of Bombay, and in the chemical or fertilizer and tyre factories of Eastern India.

Nine-tenths of textile factory workers are employed in establishments with more than 1,000 workers. The same is true of about two-thirds of metallurgical factory workers and of more than half of the workers in the mechanical industries.

The Indian industrial proletariat is, then, mainly employed in big industrial enterprises. This is favourable to labour and trade union movements, which explains why the Indian working class, although it is exploited on a large scale, has been able to obtain some satisfaction of its demands for better economic and social conditions. Its solidarity and positive action have won it certain concessions, especially in legislation over working conditions. But whatever the working conditions, the workers' standard of living in a country like India depends almost entirely upon their income in the form of wages.

The Wage-Level

The figures for big industry are the best known, and it is these that we shall analyse. One should remember, however, that they are always much higher than the wages paid by small establishments. In 1950, the average earnings of industrial workers (11) totalled about 80 Rs. per month, or 2·7 Rs. per day. A very large number of workers had to support at least four people on this wage, which works out at an income of slightly less than 0·70 Rs. per person per day.

It must not be forgotten that the above average includes the income of workers earning as much as 2,400 Rs. per year, and that some workers are employed for only part of the year.

In 1950–1, the annual net value of production in big industry was

about 1,700 Rs. per worker. The wage is a little more than half of this figure.

Also in 1950, the average yearly earnings of a miner (if we multiply the daily earnings by 300) was about 740 Rs. in the coal mines and about 412 Rs. in other mines.

The Stability of the Working Proletariat

It has been said that the Indian proletariat is 'transitional' in the sense that it consists of workers who come to work in industry for a few years before returning to their villages. If this were so, one could hardly speak of a true proletariat.

The present situation is very different. It is true that the industrial workers keep in contact with their villages, but this does not mean that they are temporary migrants. Unfortunately, precise figures in this field are lacking. But according to the I.S.I. report on unemployment, 53·6 per cent of the urban population surveyed were born in the place where they lived at the time of the survey. The proportion of wage-earners born in the same locality was a little lower (46·5 per cent), but not far below half. One important finding was that among the migrants (excluding displaced persons) 28 per cent had been in the same place for more than 6 years, and 39 per cent for more than 4 years. The industrial proletariat is stable enough to have an appreciable strength by virtue of its solidarity.

3. THE NON-AGRICULTURAL MIDDLE CLASSES

In any country, it is difficult to decide exactly which social group constitutes the 'middle classes', and the task is even harder where India is concerned. The following categories are usually included in the term: on the one hand, business and office workers, and civil servants; on the other hand, the petty bourgeoisie, in particular small tradesmen, small industrialists and craftsmen employing a few wage-earners, and 'independent workers' (doctors, lawyers, etc.).

This is not a strictly satisfactory classification, for the group consists of two distinct social categories.

The first contains a part of the wage-earning classes, but is distinguished from the working class in the strict sense of the term by the fact that it does not take a direct part in material production. It does represent, however, a part of the proletariat in the large sense of the term.

The second category is distinguished from the first in economic terms by the fact that its members sell products or services to their clients instead of selling their working capacity to an employer in return for a wage.

The distinction between the bourgeoisie and the petty bourgeoisie is more or less a conventional one (which does not mean that it is any less real in any given society). It depends firstly on the type of work done, and secondly on the income level. Thus, some doctors or lawyers belong to the bourgeoisie if they earn more than a certain figure.

It may be useful to contrast the situations of these two categories, for they belong to much the same income group. Besides, it is sometimes difficult to decide from statistics how much of the information applies to the small bourgeoisie and how much to non-industrial wage-earners.

If we use the expression 'the middle classes' to denote a particular income group, the following observations can be made.

The non-agricultural middle classes contain about one-fifth of the non-agricultural population, whereas the working class contains about one-seventh or one-eighth. The rest of the non-agricultural population —about three-fifths—consists of the social groups doing traditional non-agricultural work: craftsmen and small shopkeepers.

Some of the new members of the petty bourgeoisie and some of the new members of the proletariat originally belonged to the last-mentioned group. Many of those doing traditional work are already part of the proletariat (having none but very rudimentary means of production) and form a kind of 'sub-proletariat' in the sense that they do not belong to the wage-earning class. This last group gains strength quite slowly, absorbing the proletariat from the country who come to the towns to get manual work.

Non-Industrial Wage-Earners

The category of non-industrial, non-agricultural wage-earners includes the following professional groups: civil servants, commercial employees, bank and insurance employees, office workers (in the industrial sector, mining and transport), those employed by the private or the State educational system, health and medical service employees, those working for business agencies, for lawyers, for the press and for postal services.

The total strength of these professional groups (12) is less than 5 per cent of the total Indian working force and about 20 per cent of the

non-agricultural working force. These proportions are low, and yet the non-industrial wage-earners number more than three-quarters of what are called the middle classes.

If we admit that they number 7 million, then non-industrial, non-agricultural wage earners are *more numerous than the wage-earning workers in the modern industries*. This fact, indicating the low level of India's industrialization, has important consequences.

Non-industrial wage-earners are grouped mainly in the towns, where intellectual and political activity is greatest. Their aspirations have therefore a strong influence on the ideology—although perhaps not on the actions—of the main political parties.

Their influence is increased by the fact that the upper strata of this class are the most cultured sections of the community. Most of those who read newspapers and journals, and whose personal opinions carry some weight in society, belong to this class. Also, they are as numerous as all the other categories of non-agricultural wage-earners, with the result that the working proletariat is in a minority within the wage-earning class (excluding agricultural workers), and the wage-earning middle classes in the majority. This is the result, as we have noted above, of weak industrialization; it is also the case because city development under foreign rule was mainly commercial and administrative. The unusual structure which, as we have explained, can be seen to exist in the wage-earning class has important social and political consequences.

The Non-Agricultural Petty Bourgeoisie

This class is estimated to contain 2·1 million people. (13) The working force of the petty bourgeoisie is therefore less than 1·5 per cent of the total working force and less than 5·3 per cent of the non-agricultural working force.

The low proportion of the urban petty bourgeoisie is also related to the lack of industrialization and to the economic power of the big bourgeoisie, who dominate a *highly concentrated* capitalist structure. They leave little room for small or medium-sized enterprises (particularly in the industrial field), which causes a corresponding increase in the numbers of wage-earners.

The Income of Non-Industrial Wage-Earners

In India, as elsewhere, statistics relative to this type of income are very limited. Where and when they exist, the incomes of any one

professional group seem to vary considerably. This may partly correspond to a real difference in income due to differing social and economic situations, but it does not help us to reach satisfactory averages.

Even so, it will be useful to give some figures illustrating the level of incomes. Here are some of the statistics calculated when India's National Income was analysed.

YEARLY PROFESSIONAL EARNINGS OF SOME NON-INDUSTRIAL WAGE-EARNERS (1950–1) (IN RS.) (14)

1. Business employees (other than in banks and insurance companies)	740
2. Bank employees (15)	2,000
3. Railway and postal workers	1,600
4. Civil servants	1,100
5. Education	660

According to these figures, groups 1 and 5 are the worst paid, their incomes being even lower than those of the workers covered by the Payment of Wages Act. Monthly earnings work out at 55 Rs. in education and at a little less than 62 Rs. in business.

At the other end of the scale are the bank employees with 175 Rs. a month; but this figure is swollen by the comparatively high salaries at managerial levels which are included in the banking income group.

At this date, the 'typical monthly income' for these non-industrial wage-earners lay between the average for civil servants and the average for railway and post office workers (16); i.e. between 100 Rs. and 130 Rs. per month.

The petty bourgeoisie's income is always less well known than that of the wage-earners, and so the figures which follow are merely approximations.

According to the *F.R.N.I.C.* estimates, the average yearly earnings of business employers and 'independent' workers (excluding banks and insurance companies) who were not subject to income tax was about 1,680 Rs. per year or 133 Rs. per month in 1950–1. As this is the largest section of the petty bourgeoisie, the above figures may be considered representative of incomes in this social class, although the exact figures may actually be anywhere within a range of 30 or 40 per cent of those given above.

The dividing line between the petty bourgeoisie's income level and that of the bourgeoisie is somewhat arbitrary. In India, it may be put at 10,000 to 12,000 Rs. per year. Treasury statistics show that only about 100,000 persons engaged in commerce earn more than this income out of the 5 million commercial employers and 'independent workers'.[1]

The average income of the industrial petty bourgeoisie is apparently appreciably higher than that of the commercial petty bourgeoisie, but there is not enough material available for us to give any significant approximations.

Finally, professional incomes are also difficult to estimate, but from the *F.R.N.I.C.* data it can be said that the income of employees and 'independent workers' in the professions was about 2,600 Rs. per year (220 Rs. per month). The real figure may have been very much higher because of non-declared income; it is thought that only one-quarter of the taxable income in the professions is actually declared. (17)

The main point suggested by the foregoing analysis is that the normal income among the petty bourgeoisie lies between 150 Rs. and 400 or 500 Rs. per working person per month. Above this level one finds the upper middle classes, who occupy a position between the middle classes and the bourgeoisie.

General Observations on the Petty Bourgeoisie

The petty bourgeoisie is not at the head of the middle classes, and its activities do not lie within the scope of the modern economy (which is dominated by big capital).

The non-agricultural section of the petty bourgeoisie is mainly occupied in trade, transport, and services. Only a very small section does industrial work. Nearly half of the petty bourgeoisie is occupied in the commercial sphere, mainly in activities related to dealings in agricultural produce, bank operations, or moneylending. This section of the petty bourgeoisie is not likely to be interested in the possibilities offered by industrial capitalism. Its members are essentially conservative; it is interested in preserving the traditional structures within which it works. It is also interested in keeping the peasantry impoverished, for it benefits

[1] In 1950–1, there were only about 181,000 people subject to income tax and their average income was 10,118 Rs. per year (*F.R.N.I.C.*, p. 82). At this period, tax had to be paid on incomes of 3,000 Rs. and above. At present it is estimated that in commerce only 60 per cent of officially taxable income is in fact taxed. The real average income of those subject to income tax would therefore have been about 16,000 Rs. per year.

from the importance of moneylending capital in the villages, and it can buy agricultural produce at low prices after the harvests. In addition to these factors, its outlook and its mentality are hardly progressive.

The Indian petty bourgeoisie naturally supports conservative or even reactionary policies, and therefore the traditionalist, orthodox or communalist political parties. But because it needs the support (and often the complicity) of those in power in order to impoverish and pillage the masses, it generally backs the régime in power just as long as there is little interference from above. The anti-progressive nature of the petty bourgeoisie is particularly evident because the rural section of the middle classes is larger. The rural section of the small bourgeoisie consists of the *Maliks*, moneylenders, rural merchants, etc., with the exception of those who are generally rich enough to be considered as part of the bourgeoisie. This section is five to six times as large as the non-rural section. It is therefore the decisive section of the Indian petty bourgeoisie.

Force of numbers is not the only factor which determines the power of a social group. Economic strength, the possession of the biggest means of production, and the direct control over political power and over the instruments of information and of repression are really what allow one social class to dominate all others. However, the balance of power among the different layers of any one class (their numerical importance and their relative economic strength set aside) depends on the degree of political awareness of each layer and its active rôle in working out a political programme acceptable to the other social categories; on its geographical concentration; and, finally, on its capacity to organize itself.

The non-rural petty bourgeoisie is the stronger on all these points although it is numerically weaker than the rural section. That is why the rich peasant was not the main figure on the Indian political scene after Independence. The political parties which seek the petty bourgeoisie's vote do not apparently seek to attract the rural bourgeoisie in particular.[1]

However, the non-rural bourgeoisie is too weak socially to do without allies, and since its only interest is in maintaining the *status quo*,[2] its allies are normally the rich peasant and the various types of rural

[1] But the parties' *actions* are largely dictated by the better-off rural classes (i.e. the important people in the villages). However, the Swatantra Party—openly supporting the richer peasantry—has recently been created.

[2] It is possible that things are changing without any help from the petty bourgeoisie. If the market is growing larger, some members of the non-agricultural petty bourgeoisie may end their alliance with the richer peasantry.

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